

VERIZON COMMUNICATIONS INC.

BYLAWS

As amended, effective as of September 1, 2005

B Y L A W S
OF
VERIZON COMMUNICATIONS INC.

(a Delaware corporation)

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OF
VERIZON COMMUNICATIONS INC.

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BYLAWS

OF

VERIZON COMMUNICATIONS INC.

(a Delaware corporation)

ARTICLE I

Offices and Fiscal Year

SECTION 1.01. **Registered Office.** -The registered office of the corporation shall be in the City of Wilmington, County of New Castle, State of Delaware until a different office is established by resolution of the board of directors and a certificate certifying the change is filed in the manner provided by statute.

SECTION 1.02. **Fiscal Year.** -The fiscal year of the corporation shall end on the 31st day of December in each year.

ARTICLE II

Notice - Waivers - Meetings

SECTION 2.01. **Notice, What Constitutes.** -Whenever, under the provisions of the Delaware General Corporation Law ("GCL") or the certificate of incorporation or these Bylaws, notice is required to be given to any

director or stockholder, it shall not be construed to require personal notice, but such notice may be given in writing, by mail or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, or by telephone or facsimile transmission to the address (or to the telex, TWX, facsimile or telephone number) of the person appearing on the books of the corporation, or in the case of directors, supplied to the corporation for the purpose of notice. If the notice is sent by mail, telegram or courier service, it shall be deemed to be given when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched, or in the case of facsimile transmission, when received.

SECTION 2.02. Notice of Meetings of Board of Directors. -Notice of a regular meeting of the board of directors need not be given. Notice of every special meeting of the board of directors shall be given to each director in person or by telephone or in writing at least 24 hours (in the case of notice in person or by telephone, telex, TWX or facsimile transmission) or 48 hours (in the case of notice by telegram, courier service or express mail) or five days (in the case of notice by first class mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board need be specified in a notice of the meeting.

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SECTION 2.03. Notice of Meetings of Stockholders. -Written notice of the place, date and hour of every meeting of the stockholders, whether annual or special, shall be given to each stockholder of record entitled to vote at the meeting not less than ten nor more than 60 days before the date of the meeting. Every notice of a special meeting shall state the purpose or purposes thereof. If the notice is sent by mail, it shall be deemed to have been given when deposited in the United States mail, postage prepaid, directed to the stockholder at the address of the stockholder as it appears on the records of the corporation.

SECTION 2.04. Waivers of Notice.

(a) **Written Waiver.** -Whenever notice is required to be given under any provisions of the GCL or the certificate of incorporation or these Bylaws, a written waiver, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice of such meeting.

(b) **Waiver by Attendance.** -Attendance of a person at a meeting, either in person or by proxy, shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting was not lawfully called or convened.

SECTION 2.05. Exception to Requirements of Notice.

(a) **General Rule.** -Whenever notice is required to be given, under any provision of the GCL or the certificate of incorporation or these Bylaws, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given.

(b) **Stockholders Without Forwarding Addresses.** -Whenever notice is required to be given, under any provision of the GCL or the certificate of incorporation or these Bylaws, to any stockholder to whom (i) notice of two consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such person during the period between such two consecutive annual meetings, or (ii) all, and at least two, payments (if sent by first class mail) of dividends or interest on securities during a 12 month period, have

been mailed addressed to such person at his address as shown on the records of the corporation and have been returned undeliverable, the giving of such notice to such person shall not be required. Any action or meeting which shall be taken or held without notice to such person shall have the same force and effect as if such notice had been duly given. If any such person shall deliver to the corporation a written notice setting forth the person's then current address, the requirement that notice be given to such person shall be reinstated.

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SECTION 2.06. Conference Telephone Meetings. -One or more directors may participate in a meeting of the board, or of a committee of the board, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

ARTICLE III Meetings of Stockholders

SECTION 3.01. Place of Meeting. -All meetings of the stockholders of the corporation shall be held at such place within or without the State of Delaware as shall be designated by the board of directors in the notice of such meeting (or by the Chairman calling a meeting pursuant to Section 3.03).

SECTION 3.02. Annual Meeting. -The board of directors may fix and designate the date and time of the annual meeting of the stockholders. At said meeting the stockholders then entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting.

SECTION 3.03. Special Meetings. -Special meetings of the stockholders of the corporation may be called at any time by the chairman of the board or a majority of the board of directors. At any time, upon the written request of any person or persons who have duly called a special meeting, which written request shall state the purpose or purposes of the meeting, it shall be the duty of the secretary to fix the date of the meeting which shall be held at such date and time as the secretary may fix, not less than ten nor more than 60 days after the receipt of the request, and to give due notice thereof. If the secretary shall neglect or refuse to fix the time and date of such meeting and give notice thereof, the person or persons calling the meeting may do so.

SECTION 3.04. Quorum, Manner of Acting and Adjournment.

(a) **Quorum.** -The holders of a majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders except as otherwise provided by the GCL, by the certificate of incorporation or by these Bylaws. If a quorum is not present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At any such adjourned meeting at which a quorum is present or represented, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

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(b) **Manner of Acting.** -Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote at the meeting on the election of directors. In all matters other than the election of directors, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote and voting thereon shall be the act of the stockholders, unless the question is one upon which, by express provision of the applicable statute, the certificate of incorporation or these Bylaws, a different

vote is required in which case such express provision shall govern and control the decision of the question. The stockholders present in person or by proxy at a duly organized meeting can continue to do business until adjournment, notwithstanding withdrawal of enough stockholders to leave less than a quorum.

(c) **Stockholder Proposals.** -Nominations by stockholders of persons for election to the board of directors of the corporation may be made at an annual meeting in compliance with Section 4.13 hereof. The proposal of other business to be considered by the stockholders at an annual meeting of stockholders may be made (i) pursuant to the corporation's notice of meeting, (ii) by or at the direction of the board of directors, or (iii) by any stockholder of the corporation pursuant to timely notice in writing to the secretary of the corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 90 days prior to the anniversary date of the prior year's annual meeting. Such stockholder's notice to the secretary shall set forth (a) as to the stockholder giving notice and the beneficial owner, if any on whose behalf the proposal is made, (i) their name and record address, and (ii) the class and number of shares of capital stock of the corporation which are beneficially owned by each of them, and (b) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder giving notice and the beneficial owner, if any, on whose behalf the proposal is made. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section.

(d) The chairman of the meeting may, if the facts warrant, determine and declare to the meeting that any proposal made at the meeting was not made in accordance with the foregoing procedures and, in such event, the proposal shall be disregarded. Any decision by the chairman of the meeting shall be conclusive and binding upon all stockholders of the corporation for any purpose.

SECTION 3.05. **Organization.** -At every meeting of the stockholders, the chairman of the board, if there be one, or in the case of a vacancy in the office or absence of the chairman of the board, one of the following persons present in the order stated: the president, the vice chairman, if one has been appointed, a chairman designated by the board of directors or a chairman chosen by the stockholders entitled to cast a majority of the votes which all stockholders present in person or by proxy are entitled to cast, shall act as chairman, and the secretary, or, in the absence of the secretary, an assistant secretary, or in the absence of the secretary and the assistant secretaries, a person appointed by the chairman, shall act as secretary.

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SECTION 3.06. **Voting.**

(a) **General Rule.** -Unless otherwise provided in the certificate of incorporation, each stockholder shall be entitled to one vote, in person or by proxy, for each share of capital stock having voting power held by such stockholder.

(b) **Voting and Other Action by Proxy.**

(1) A stockholder may execute a writing authorizing another person or persons to act for the stockholder as proxy. Such execution may be accomplished by the stockholder or the authorized officer, director, employee or agent of the stockholder signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature. A stockholder may authorize another person or persons to act for the stockholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission if such telegram, cablegram or other means of electronic transmission sets forth or is submitted with

information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder.

(2) No proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period.

(3) A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only so long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally.

SECTION 3.07. Voting Lists. -The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting. The list shall be arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

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SECTION 3.08. Inspectors of Election.

(a) **Appointment.** -All elections of directors shall be by written ballot; the vote upon any other matter need not be by ballot. In advance of any meeting of stockholders the board of directors may appoint one or more inspectors, who need not be stockholders, to act at the meeting and to make a written report thereof. The board of directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the person's best ability.

(b) **Duties.** -The inspectors shall ascertain the number of shares outstanding and the voting power of each, shall determine the shares represented at the meeting and the validity of proxies and ballots, shall count all votes and ballots, shall determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and shall certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors.

(c) **Polls.** -The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery upon application by a stockholder shall determine otherwise.

(d) **Reconciliation of Proxies and Ballots.** -In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information transmitted in accordance with section 3.06, ballots and the regular books and records of the corporation, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for the limited purpose

permitted herein, the inspectors at the time they make their certification pursuant to subsection (b) shall specify the precise information considered by them including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors' belief that such information is accurate and reliable.

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ARTICLE IV Board of Directors

SECTION 4.01. **Powers.** -All powers vested by law in the corporation shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors.

SECTION 4.02. **Number.** -Subject to the provisions of the certificate of incorporation, the board of directors shall consist of such number of directors as may be determined from time to time by resolution adopted by a vote of a majority of the entire board of directors.

SECTION 4.03. **Term of Office.** -Directors of the corporation shall hold office until the next annual meeting of stockholders and until their successors shall have been elected and qualified, except in the event of death, resignation or removal.

SECTION 4.04. **Vacancies.**

(a) Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and a director so chosen shall hold office until the next annual election of the class for which such director shall have been elected and until a successor is duly elected and qualified. If there are no directors in office, then an election of directors may be held in the manner provided by statute.

(b) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

(c) If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the entire board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorship, or to replace the directors chosen by the directors then in office.

SECTION 4.05. **Resignations.** -Any director may resign at any time upon written notice to the chairman, president or secretary of the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as shall be specified in the notice of resignation and, unless otherwise specified in the notice, the acceptance of the resignation shall not be necessary to make it effective.

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SECTION 4.06. **Organization.** -At every meeting of the board of directors, the chairman of the board, if there be one, or, in the case of a vacancy in the office or absence of the chairman of the board, one of the following

officers present in the order stated: the president, the vice chairman, if one has been appointed, the vice presidents in their order of rank and seniority, or a chairman chosen by a majority of the directors present, shall preside, and the secretary, or, in the absence of the secretary, an assistant secretary, or in the absence of the secretary and the assistant secretaries, any person appointed by the chairman of the meeting, shall act as secretary.

SECTION 4.07. Place of Meeting. -Meetings of the board of directors, both regular and special, shall be held at such place within or without the State of Delaware as the board of directors may from time to time determine, or as may be designated in the notice of the meeting.

SECTION 4.08. Regular Meetings. -Regular meetings of the board of directors shall be held without notice at such time and place as shall be designated from time to time by resolution of the board of directors.

SECTION 4.09. Special Meetings. -Special meetings of the board of directors shall be held whenever called by the chairman or by three or more of the directors.

SECTION 4.10. Quorum, Manner of Acting and Adjournment.

(a) **General Rule.** -At all meetings of the board one-third of the total number of directors shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the board of directors, except as may be otherwise specifically provided by the GCL or by the certificate of incorporation. If a quorum is not present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

(b) **Unanimous Written Consent.** -Unless otherwise restricted by the certificate of incorporation, any action required or permitted to be taken at any meeting of the board of directors may be taken without a meeting, if all members of the board consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board.

SECTION 4.11. Committees of the Board.

(a) **Establishment.** -The board of directors may, by resolution adopted by a majority of the entire board, establish one or more other committees, each committee to consist of one or more directors. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee and the alternate or alternates, if any, designated for such member, the member or members of the committee present at any meeting and not disqualified from voting, whether or not they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member.

(b) **Powers.** -Any such committee, to the extent provided in the resolution establishing such committee, shall have and may exercise all the power and authority of the board of directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have such power or authority in reference to amending the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the GCL, fix the designation and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation or fix the number of shares of any series of stock or authorize the increase or decrease of shares of any series), adopting an agreement of merger or consolidation under Section 251, 252, 254, 255, 256, 257, 258, 263, or 264 of the GCL, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's

property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the Bylaws of the corporation. Such committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors. Each committee so formed shall keep regular minutes of its meetings and report the same to the board of directors when required.

(c) **Committee Procedures.** -The term “board of directors” or “board,” when used in any provision of these Bylaws relating to the organization or procedures of or the manner of taking action by the board of directors, shall be construed to include and refer to any committee of the board.

SECTION 4.12. Compensation of Directors. -Unless otherwise restricted by the certificate of incorporation, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

SECTION 4.13. Qualifications and Election of Directors.

(a) All directors of the corporation shall be natural persons of full age, but need not be residents of Delaware or stockholders of the corporation. Except in the case of vacancies, directors shall be elected by the stockholders. If directors of more than one class are to be elected, each class of directors to be elected at the meeting shall be nominated and elected separately. A director shall retire from the board at the board meeting next following his or her 72nd birthday. The term of office of any director elected or appointed in conformity with the preceding sentence shall continue (to the extent provided in the certificate of incorporation and these Bylaws) after such director reaches 72 years of age.

(b) Nominations of persons for election to the board of directors of the corporation may be made at a meeting of stockholders by or at the direction of the board of directors.

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(c) Nominations of persons for election to the board of directors of the corporation may also be made at the meeting by any stockholder of the corporation entitled to vote for the election of directors who complies with the notice procedures set forth in this Section 4.13 (c) and (d). Such nominations, other than those made by or at the direction of the board, shall be made pursuant to timely notice in writing to the secretary of the corporation. To be timely, a stockholder’s notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 90 days prior to the anniversary date of the prior year’s meeting for the election of directors. Such stockholder’s notice to the secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the corporation which are beneficially owned by the person, and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to the rules and regulations promulgated under the Securities Exchange Act of 1934 as amended; and (b) as to the stockholder giving the notice (i) the name and record address of the stockholder and (ii) the class and number of shares of capital stock of the corporation which are beneficially owned by the stockholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation. No person shall be eligible for election as a director by the stockholders of the corporation unless nominated in accordance with the procedures set forth herein.

(d) The chairman of the meeting may, if the facts warrant, determine and declare to the meeting that any nomination made at the meeting was not made in accordance with the foregoing procedures and, in such event, the nomination shall be disregarded. Any decision by the chairman of the meeting shall be conclusive and binding

upon all stockholders of the corporation for any purpose.

SECTION 4.14. Voting of Stock. -Unless otherwise ordered by the board of directors, each of the chairman of the board, the president, and the principal accounting officer (as identified in the corporation's most recent report filed with the United States Securities and Exchange Commission) shall have full power and authority, on behalf of the corporation, to attend and to act and vote, in person or by proxy, at any meeting of the stockholders of any company in which the corporation may hold stock, and at any such meeting shall possess and may exercise any and all of the rights and powers incident to the ownership of such stock which, as the owner thereof, the corporation might have possessed and exercised if present. The board of directors, by resolution adopted from time to time, may confer like powers upon any other person or persons.

SECTION 4.15. Endorsement of Securities for Transfer. -Each of the chairman of the board, the president, and the principal accounting officer shall have the power to endorse and deliver for sale, assignment or transfer certificates for stock, bonds or other securities, registered in the name of or belonging to the corporation, whether issued by the corporation or by any other corporation, government, state or municipality or agency thereof; and the board of directors from time to time may confer like power upon any other officer, agent or person by resolution adopted from time to time. Every such endorsement shall be countersigned by the treasurer or an assistant treasurer.

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ARTICLE V Officers

SECTION 5.01. Number, Qualifications and Designation. -The corporation shall have such officers with such titles and duties as shall be specified by resolution of the board of directors. Any number of offices may be held by the same person. Officers may, but need not, be directors or stockholders of the corporation. The board of directors may elect from among the members of the board a chairman of the board and one or more vice chairmen of the board.

SECTION 5.02. Election and Term of Office. -The officers of the corporation, except those elected by delegated authority pursuant to section 5.03 of this Article, shall be elected annually by the board of directors, and each such officer shall hold office for a term of one year and until a successor is elected and qualified, or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the corporation.

SECTION 5.03. Subordinate Officers, Committees and Agents. -Each officer of the corporation shall have the power to appoint subordinate officers (including without limitation one or more assistant secretaries and one or more assistant treasurers) and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

SECTION 5.04. Officers' Bonds. -No officer of the corporation need provide a bond to guarantee the faithful discharge of the officer's duties unless the board of directors shall by resolution so require a bond in which event such officer shall give the corporation a bond (which shall be renewed if and as required) in such sum and with such surety or sureties as shall be satisfactory to the board of directors for the faithful performance of the duties of office.

SECTION 5.05. Salaries. -The salaries of the officers and agents of the corporation elected by the board of directors shall be fixed from time to time by the board of directors.

ARTICLE VI Certificates of Stock, Transfer, Etc.

SECTION 6.01. Form and Issuance.

(a) **Issuance.** -The shares of the corporation shall be represented by certificates unless the board of directors shall by resolution provide that some or all of any class or series of stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until the certificate is surrendered to the corporation. Notwithstanding the adoption of any resolution providing for uncertificated shares, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by, the chairman or vice chairman of the board of directors, or the president or vice president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary, representing the number of shares registered in certificate form.

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(b) **Form and Records.** -Stock certificates of the corporation shall be in such form as approved by the board of directors. The stock record books and the blank stock certificate books shall be kept by the secretary or by any agency designated by the board of directors for that purpose. The stock certificates of the corporation shall be numbered and registered in the stock ledger and transfer books of the corporation as they are issued.

(c) **Signatures.** -Any of or all the signatures upon the stock certificates of the corporation may be a facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer, transfer agent or registrar before the certificate is issued, it may be issued with the same effect as if the signatory were such officer, transfer agent or registrar at the date of its issue.

SECTION 6.02. **Transfer.** -Transfers of shares shall be made on the share register or transfer books of the corporation upon surrender of the certificate therefor, endorsed by the person named in the certificate or by an attorney lawfully constituted in writing. No transfer shall be made which would be inconsistent with the provisions of applicable law.

SECTION 6.03. **Lost, Stolen, Destroyed or Mutilated Certificates.** -The board of directors may direct a new certificate of stock or uncertificated shares to be issued in place of any certificate theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or the legal representative of the owner, to give the corporation a bond sufficient to indemnify against any claim that may be made against the corporation on account of the alleged loss, theft or destruction of such certificate or the issuance of such new certificate or uncertificated shares.

SECTION 6.04. **Record Holder of Shares.** -The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

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SECTION 6.05. **Determination of Stockholders of Record.**

(a) **Meetings of Stockholders.** -In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is

adopted by the board of directors, and which record date shall not be more than 60 nor less than ten days before the date of such meeting. If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board of directors fixes a new record date for the adjourned meeting.

(b) **Consent of Stockholders.** -In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the board of directors. If no record date has been fixed by the board of directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the board of directors is required by the GCL, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the board of directors and prior action by the board of directors is required by the GCL, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the board of directors adopts the resolution taking such prior action.

(c) **Dividends.** -In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights of the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

ARTICLE VII General Provisions

SECTION 7.01. Dividends. -Subject to the restrictions contained in the GCL and any restrictions contained in the certificate of incorporation, the board of directors may declare and pay dividends upon the shares of capital stock of the corporation.

SECTION 7.02. Contracts. -Except as otherwise provided in these Bylaws, the board of directors may authorize any officer or officers including the chairman and vice chairman of the board of directors, or any agent or agents, to enter into any contract or to execute or deliver any instrument on behalf of the corporation and such authority may be general or confined to specific instances. Any officer so authorized may, unless the authorizing resolution otherwise provides, delegate such authority to one or more subordinate officers, employees or agents, and such delegation may provide for further delegation.

SECTION 7.03. Corporate Seal. -The corporation shall have a corporate seal, which shall have inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

SECTION 7.04. Checks, Notes, Etc. -All checks, notes and evidences of indebtedness of the corporation shall be signed by such person or persons as the board of directors may from time to time designate.

SECTION 7.05. Corporate Records.

(a) **Examination by Stockholders.** -Every stockholder shall, upon written demand under oath stating the purpose thereof, have a right to examine, in person or by agent or attorney, during the usual hours for business, for any proper purpose, the stock ledger, list of stockholders, books or records of account, and records of the proceedings of the stockholders and directors of the corporation, and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business. Where the stockholder seeks to inspect the books and records of the corporation, other than its stock ledger or list of stockholders, the stockholder shall first establish (1) that the stockholder has complied with the provisions of this section respecting the form and manner of making demand for inspection of such documents; and (2) that the inspection sought is for a proper purpose. Where the stockholder seeks to inspect the stock ledger or list of stockholders of the corporation and has complied with the provisions of this section respecting the form and manner of making demand for inspection of such documents, the burden of proof shall be upon the corporation to establish that the inspection sought is for an improper purpose.

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(b) **Examination by Directors.** -Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to the person's position as a director.

SECTION 7.06. Amendment of Bylaws. -Except as otherwise provided herein, these Bylaws may be altered, amended or repealed or new Bylaws may be adopted either (1) by vote of the stockholders at a duly organized annual or special meeting of stockholders in accordance with the certificate of incorporation, or (2) by vote of a majority of the entire board of directors at any regular or special meeting of directors if such power is conferred upon the board of directors by the certificate of incorporation.

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EXHIBIT 10j(i)

VERIZON COMMUNICATIONS INC. LONG-TERM INCENTIVE PLAN

PERFORMANCE STOCK UNIT AGREEMENT

2003-05 AWARD CYCLE

AGREEMENT between Verizon Communications Inc. ("Verizon") and the participant identified on the attached signature page (the "Participant").

1. *Purpose of Agreement.* The purpose of this Agreement is to provide a one-time grant of performance stock units ("PSUs") to the Participant.

2. *Agreement.* This Agreement is entered into pursuant to the terms of the 2001 Verizon Communications Inc. Long-Term Incentive Plan (the "Plan"), and evidences the grant of a performance stock award in the form of PSUs pursuant to the Plan. This Agreement is designed to comply with the requirements of Section 162(m) of the Code and the Treasury Department Regulations thereunder. The PSUs and this Agreement are subject to the terms and provisions of the Plan. (The Participant may request a copy of the Plan from the Verizon Compensation and

Executive Benefits Department.) By executing this Agreement, the Participant agrees to be bound by the terms and provisions of the Plan, and by the actions of the Plan Administrator, the Human Resources Committee of Verizon's Board of Directors or any successor thereto (the "Committee"), and any designee of the Committee.

3. *Contingency.* The grant of PSUs is contingent on the Participant's timely execution of this Agreement and satisfaction of certain other conditions contained herein. If the Participant does not execute this Agreement and return it as provided on the attached signature page within 30 business days of its receipt, the Participant shall not be entitled to the PSUs.

4. *Number of Units.* The Participant is granted the number of PSUs specified on the attached signature page as of February 3, 2003. A PSU is a hypothetical share of Verizon's common stock. The value of a PSU on any given date shall be equal to the closing price of Verizon's common stock as of such date. A PSU does not represent an equity interest in Verizon and carries no voting rights. A Dividend Equivalent Unit ("DEU") or fraction thereof shall be added to each PSU each time that a dividend is paid on Verizon's common stock. The amount of each DEU shall be equal to the dividend paid on a share of Verizon's common stock. The DEU shall be converted into PSUs or fractions thereof based upon the average of the high and low sales prices of Verizon's common stock traded on the New York Stock Exchange on the dividend payment date of each declared dividend on Verizon's common stock, and such PSUs or fractions thereof shall be added to the Participant's PSU balance.

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5. *Vesting.*

(a) The Participant shall vest in the PSUs to the extent provided in paragraph 5(b) ("Performance Requirement") only if the Participant satisfies the requirements of paragraph 5(c) ("Three-Year Continuous Employment Requirement"), except as otherwise provided in paragraph 7 ("Early Cancellation/Accelerated Vesting of PSUs").

(b) *Performance Requirement.*

(1) The PSUs shall vest based on the average annual total shareholder return ("TSR") of Verizon's Common Stock during the three-year period beginning January 1, 2003, and ending December 31, 2005, relative to the combined weighted average annual TSR of the companies in the Standard & Poor's 500 ("S&P 500") Index and the companies in the Telecom Peer Company ("TPC") Index during the same three-year period as provided in the following table-

Relative TSR Position	Vested Percentage of PSUs *
Below 20%	0%
20%	40%
30%	60%
40%	80%
50%	100%
60%	120%
70%	140%
80% or more	200%

*For amounts between 20% and 80%, the vested percentage of PSUs shall equal twice the Relative TSR Position (e.g., a Relative TSR Position of 52% equals a 104% vested percentage). However, the Committee's discretion to administer the Plan includes the absolute discretion to reduce the vested percentage of PSUs at any Relative TSR Position, and the Committee's exercise of this discretion shall

be final, conclusive and binding. Note : No PSUs shall vest if the Relative TSR Position is less than 20% and the maximum percentage of PSUs to vest shall be 200%.

(2) For purposes of the table set forth in paragraph 5(b)(1)-

(i) "Relative TSR Position" shall equal (A) 60% of the average annual Verizon S&P 500 TSR Position during the Award Cycle, plus (B) 40% of the average annual Verizon TPC TSR Position during the Award Cycle. The Committee's discretion to

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administer the Plan includes the absolute discretion to substitute or eliminate companies in the Telecom Peer Index and determine the Relative TSR Position for any period, and the Committee's exercise of this discretion shall be final, conclusive and binding.

(ii) "Verizon S&P 500 TSR Position" shall be, as determined by the Committee, Verizon's rank among companies in the S&P 500 Index in terms of TSR, expressed as a percentage equal to the number of companies in the S&P 500 Index with a TSR less than or equal to that of Verizon divided by the total number of companies in such index.

(iii) "Verizon TPC TSR Position" shall be, as determined by the Committee, where Verizon would rank among companies in the Telecom Peer Company Index in terms of TSR if Verizon were included in such index, expressed as a percentage equal to the number of companies in the TPC Index with a TSR less than or equal to that of Verizon divided by the total number of companies in such index.

(iv) "TSR" or "Total Shareholder Return" shall mean the change in the price of a share of common stock from the beginning of a period (as measured by the closing price of a share of such stock on the last trading day preceding the beginning of the period) until the end of such period (as measured by the closing price of a share of such stock on the last trading day of the period), adjusted to reflect the reinvestment of dividends (if any) through the purchase of common stock and as may be necessary to take into account stock splits or other events similar to those described in Section 4.3 of the Plan.

(v) "Award Cycle" shall mean the three-year period beginning on January 1, 2003 and ending at the close of business on December 31, 2005.

(c) *Three-Year Continuous Employment Requirement.* Except as otherwise determined by the Committee, the PSUs shall vest only if the Participant is continuously employed by Verizon from the date the PSUs are granted through the end of the Award Cycle.

(d) *Transfer.* Transfer of employment from Verizon to a Related Company (as defined in paragraph 13), from a Related Company to Verizon, or from one Related Company to another Related Company shall not constitute a separation from employment hereunder, and service with a Related Company shall be treated as service with Verizon for purposes of the three-year continuous employment requirement in paragraph 5(c).

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6. *Payment* . All payments under this Agreement shall be made in shares of Verizon's Common Stock,

except for any fractional shares, which shall be paid in cash. As soon as practicable after the end of the Award Cycle, except as described in paragraph 7(c), the value of the PSUs (minus any withholding for income taxes) shall be paid to the Participant (subject, however, to any deferral application that the Participant has made under the deferral plan then available to the Participant and under procedures adopted by the Plan Administrator). If the Participant dies before any payment due hereunder is made, such payment shall be made to the Participant's beneficiary. Once a payment has been made with respect to a PSU, the PSU shall be canceled.

7. *Early Cancellation/Accelerated Vesting of PSUs.* Subject to the provisions of paragraph 7(c), PSUs may vest or be forfeited before vesting in accordance with paragraph 5 as follows:

(a) *Voluntary Separation and Discharge for Cause.*

(1) If the Participant is not eligible to Retire (as defined in paragraph 7(b)(5)) and quits, if the Participant is terminated for Cause (as defined below), or if the Participant separates from employment under circumstances not described in paragraph 7(b), all then-unvested PSUs shall be canceled immediately and shall not be payable.

(2) For purposes of this Agreement, "Cause" means (i) grossly incompetent performance or substantial or continuing inattention to or neglect of the duties and responsibilities assigned to the Participant; fraud, misappropriation or embezzlement involving the Company; or a material breach of the Code of Business Conduct or any provision incorporated in Exhibit A ("Covenants") to this Agreement, all as determined by the Plan Administrator in its discretion, or (ii) commission of any felony of which the Participant is finally adjudged guilty by a court of competent jurisdiction.

(b) *Retirement, Involuntary Termination Without Cause, Death or Disability.*

(1) This paragraph 7(b) shall apply if, on or before the last day of the Award Cycle, the Participant-

(i) Retires, or

(ii) separates from employment by reason of an involuntary termination without Cause (as determined by the Plan Administrator), death or disability.

(2) Subject to paragraph 7(b)(3), if the Participant separates from employment under circumstances described in paragraph 7(b)(1), the Participant's then-unvested PSUs shall be subject to the vesting

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provisions set forth in paragraph 5(a), except that the three-year continuous employment requirement set forth in paragraph 5(c) shall not apply, provided that the Participant executes a release satisfactory to the Company waiving any claims he may have against the Company.

(3) The Participant shall vest under this paragraph 7(b) only in a percentage of the PSUs that would otherwise have vested based upon the ratio of (i) the number of months the Participant was actively at work during the Award Cycle to (ii) the total number of months in the Award Cycle. For this purpose, a Participant who is actively at work through and including the 15th day of any month shall receive credit for the full month, and a Participant who is not actively at work through and including the 15th day of the month shall not receive any credit for that month.

(4) Any PSUs that vest pursuant to this paragraph 7(b)(3) shall be payable as soon as practicable after the end of the Award Cycle, except as described in paragraph 7(c). However, the Plan Administrator's discretion to administer the Plan includes the absolute discretion to determine whether and the extent to which the Participant is eligible to receive DEUs with respect to dividends declared after the Participant's separation from employment, and the Plan Administrator's exercise of this discretion shall be final, conclusive and binding.

(5) For purposes of this Agreement, "Retire" means (i) to retire after having attained at least 15 years of Net Credited Service (as defined under the Verizon Management Pension Plan) and a combination of age and years of Net Credited Service that equals or exceeds 75 points, or (ii) retirement under any other circumstances determined in writing by the Plan Administrator.

(c) *Change in Control*. Upon the occurrence of a Change in Control (as defined in the Plan) on or before the last day of the Award Cycle, all then-unvested PSUs shall vest and be payable immediately (without prorating of the award) at 50% of the maximum award payout without regard to the performance requirement in paragraph 5(b) or the three-year continuous employment requirement in paragraph 5(c); provided, however, that if the Participant terminates employment before the Change in Control occurs under the circumstances described in paragraph 7(b)(3), the immediately payable award described in this sentence shall be prorated as described in paragraph 7(b)(3). A Change in Control that occurs after the end of the Award Cycle shall have no effect on whether any PSUs vest or become payable. A Participant who receives the immediate award payment provided in this paragraph 7(c) shall be entitled to receive payment for all dividends declared before the Change in Control, even if such dividends are paid or payable after the Change in Control.

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(d) *Vesting Schedule*. Except as provided in paragraphs 7(b) and (3), nothing in this paragraph 7 shall alter the vesting schedule prescribed by paragraph 5.

8. *Shareholder Rights*. The Participant shall have no rights as a shareholder with respect to shares of common stock to which this grant relates until the date on which the Participant becomes the holder of record of such shares. Except as provided in the Plan or in this Agreement, no adjustment shall be made for dividends or other rights for which the record date is prior to such date.

9. *Revocation or Amendment of Agreement*. Except to the extent required by law or specifically contemplated under this Agreement (including, but not limited to, the determination of Relative TSR Position, Verizon S&P 500 TSR Position, and Verizon TPC TSR Position, and whether the Participant has been terminated for Cause, has a disability, or has satisfied the three-year continuous employment requirement), the Committee may not, without the written consent of the Participant, (a) revoke this Agreement insofar as it relates to the PSUs granted hereunder, or (b) make or change any determination or change any term, condition or provision affecting the PSUs if the determination or change would materially and adversely affect the PSUs or the Participant's rights thereto. Nothing in the preceding sentence shall preclude the Committee from exercising reasonable administrative discretion with respect to the Plan or this Agreement.

10. *Assignment*. The PSUs shall not be assignable or transferable except by will or by the laws of descent and distribution. During the Participant's lifetime, the PSUs may be deferred only by the Participant or by the Participant's guardian or legal representative.

11. *Beneficiary*. The Participant shall designate a beneficiary in writing and in such manner as is acceptable to the Plan Administrator. If the Participant fails to so designate a beneficiary, or if no such designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's estate.

12. *Other Plans and Agreements.* Any gain realized by the Participant pursuant to this Agreement shall not be taken into account as compensation in the determination of the Participant's benefits under any pension, savings, group insurance, or other benefit plan maintained by Verizon or a Related Company, except as determined by the board of directors of such company. The Participant acknowledges that receipt of this Agreement or any prior PSU agreement shall not entitle the Participant to any other benefits under the Plan or any other plans maintained by the Company.

13. *Company and Related Company.* For purposes of this Agreement, "Company" means Verizon and Related Companies. "Related Company" means (a) any

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corporation, partnership, joint venture, or other entity in which Verizon hold a direct or indirect ownership or proprietary interest of 50 percent or more, or (b) any corporation, partnership, joint venture, or other entity in which Verizon holds an ownership or other proprietary interest of less than 50 percent but which, in the discretion of the Committee, is treated as a Related Company for purposes of this Agreement.

14. *Employment Status.* The grant of the PSUs shall not be deemed to constitute a contract of employment between the Company and the Participant, nor shall it constitute a right to remain in the employ of any such company.

15. *Taxes.* It shall be a condition to the issuance or delivery of shares of common stock as to which the PSUs relate that provisions satisfactory to the Company shall have been made for payment of any taxes determined by the Company to be required to be paid or withheld pursuant to any applicable law or regulation. The Participant shall be responsible for any income taxes and the employee portion of any employment taxes that arise in connection with this grant of PSUs.

16. *Securities Laws.* The Company shall not be required to issue or deliver any shares of common stock prior to the admission of such shares to listing on any stock exchange on which the stock may then be listed and the completion of any registration or qualification of such shares under any federal or state law or rulings or regulations of any government body that the Company, in its sole discretion, determines to be necessary or advisable.

17. *Committee Authority.* The Committee shall have complete discretion in the exercise of its rights, powers, and duties under this Agreement. Any interpretation or construction of any provision of, and the determination of any question arising under, this Agreement shall be made by the Committee in its sole discretion and shall be final, conclusive, and binding. The Committee may designate any individual or individuals to perform any of its functions hereunder.

18. *Successors.* This Agreement shall be binding upon, and inure to the benefit of, any successor or successors of the Company and the person or entity to whom the PSUs may have been transferred by will, the laws of descent and distribution, or beneficiary designation. All terms and conditions of this Agreement imposed upon the Participant shall, unless the context clearly indicates otherwise, be deemed, in the event of the Participant's death, to refer to and be binding upon such last-mentioned person or entity.

19. *Construction.* This Agreement is intended to grant the PSUs upon the terms and conditions authorized by the Plan. Any provisions of this Agreement that cannot be so administered, interpreted, or construed shall be disregarded. In the event that any provision of this Agreement is held invalid or unenforceable by a court of competent jurisdiction, such provision shall be considered separate and apart from the remainder of this Agreement, which shall remain in full force and effect. In the event that any provision is held to be unenforceable for being unduly broad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to applicable law and shall be enforced as amended.

20. *Defined Terms.* Except where the context clearly indicates otherwise, all capitalized terms used herein shall have the definitions ascribed to them by the Plan, and the terms of the Plan shall apply where appropriate.

21. *Execution of Agreement.* The Participant shall indicate consent to the terms of this Agreement and the Plan by executing the attached signature page which is made a part of this Agreement and otherwise complying with the requirements of paragraph 3.

22. *Confidentiality.* Except to the extent otherwise required by law, the Participant shall not disclose, in whole or in part any of the terms of this Agreement. This paragraph 22 does not prevent the Participant from disclosing the terms of this Agreement to the Participant's spouse or to the Participant's legal, tax, or financial adviser, provided that the Participant take all reasonable measures to assure that he or she does not disclose the terms of this Agreement to a third party except as otherwise required by law.

23. *Additional Remedies.* In addition to any other rights or remedies, whether legal, equitable, or otherwise, that each of the parties to this Agreement may have (including the right of the Company to terminate the Participant for Cause), the Participant acknowledges that-

(a) The covenants incorporated in Exhibit A to this Agreement are essential to the continued good will and profitability of the Company;

(b) The Participant has broad-based skills that will serve as the basis for employment opportunities that are not prohibited by the covenants incorporated in Exhibit A;

(c) When the Participant's employment with the Company terminates, the Participant shall be able to earn a livelihood without violating any of the covenants incorporated in Exhibit A;

(d) Irreparable damage to the Company shall result in the event that the covenants incorporated in Exhibit A are not specifically enforced and that monetary damages will not adequately protect the Company from a breach of these covenants;

(e) If any dispute arises concerning the violation by the Participant of the covenants incorporated in Exhibit A, an injunction may be issued restraining such violation pending the determination of such controversy, and no bond or other security shall be required in connection therewith;

(f) Such covenants shall continue to apply after any expiration, termination, or cancellation of this Agreement; and

(g) The Participant's breach of any of such covenants shall result in the Participant's immediate forfeiture of all rights and benefits under this Agreement.

SIGNATURE PAGE

By executing this page, the undersigned Participant agrees to be bound by the terms of the 2001 Verizon Communications Inc. Long-Term Incentive Plan and the Performance Stock Unit Agreement (2003-05 Award Cycle), the terms of which are incorporated herein by reference, in connection with the following grant to the Participant under the Plan:

NAME OF PARTICIPANT:	
SOCIAL SECURITY NUMBER:	
NUMBER OF PSUs:	

IN WITNESS WHEREOF, Verizon Communications Inc., by its duly authorized Officer, and the Participant have executed this Agreement.

	VERIZON COMMUNICATIONS INC.
By:	
	Ezra D. Singer
	Executive Vice President -
	Human Resources
	Participant
	Date

Please indicate your acceptance by signing above and returning the signed Agreement to the Compensation and Executive Benefits Department at 1095 Avenue of the Americas, 34th Floor, New York, New York 10036 within thirty business days of your receipt of this Agreement.

Attachment: Exhibit A - Covenant

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Exhibit A-Covenants

1. Noncompetition - In consideration for the benefits described in the Agreement to which this Exhibit A is attached, you, the Participant, agree that:

(a) Prohibited Conduct - During the period of your employment with the Company, and for the period ending six months after your termination of employment for any reason from the Company, you shall not, without the prior written consent of the Plan Administrator:

(1) personally engage in Competitive Activities (as defined below); or

(2) work for, own, manage, operate, control, or participate in the ownership, management, operation, or control of, or provide consulting or advisory services to, any individual, partnership, firm, corporation, or institution engaged in Competitive Activities, or any company or person affiliated with such person or entity engaged in Competitive Activities; provided that your purchase or holding, for investment purposes, of securities of a publicly traded company shall not constitute "ownership" or "participation in ownership" for purposes of this paragraph so long as your equity interest in any such company is less than a controlling interest;

provided that this paragraph (a) shall not prohibit you from (i) being employed by, or providing services to, a consulting firm, provided that you do not personally engage in Competitive Activities or provide consulting or advisory services to any individual, partnership, firm, corporation, or institution engaged in Competitive Activities, or any company or person affiliated with such person or entity engaged in Competitive Activities, or (ii) engaging in the private practice of law as a sole practitioner or as a partner in (or as an employee of or counsel to) a law firm in accordance with applicable legal and professional standards.

(b) Competitive Activities - For purposes of the Agreement to which this Exhibit A is attached, "Competitive Activities" means business activities relating to products or services of the same or similar type as the products or services (1) which are sold (or, pursuant to an existing business plan, will be sold) to paying customers of the Company, and (2) for which you then have responsibility to plan, develop, manage, market, oversee or perform, or had any such responsibility within your most recent 24 months of employment with the Company. Notwithstanding the previous sentence, a business activity shall not be treated as a Competitive Activity if the geographic marketing area of the relevant products or services sold by you or a third party does not overlap with the geographic marketing area for the applicable products and services of the Company.

2. Interference With Business Relations - During the period of your employment with the Company, and for a period ending with the expiration of twelve (12) months following your termination of employment for any reason from the Company, you shall not, without the written consent of the Plan Administrator:

(a) recruit or solicit any employee of the Company for employment or for retention as a consultant or service provider;

(b) hire or participate (with another company or third party) in the process of hiring (other than for the Company) any person who is then an employee of the Company, or provide names or other information about Company employees to any person, entity or business (other than the Company) under circumstances that could lead to the use of any such information for purposes of recruiting or hiring;

(c) interfere with the relationship of the Company with any of its employees, agents, or representatives;

(d) solicit or induce, or in any manner attempt to solicit or induce, any client, customer, or prospect of the Company (1) to cease being, or not to become, a customer of the Company or (2) to divert any business of such customer or prospect from the Company; or

(e) otherwise interfere with, disrupt, or attempt to interfere with or disrupt, the relationship, contractual or otherwise, between the Company and any of its customers, clients, prospects, suppliers, consultants, or employees.

3. Return Of Property; Intellectual Property Rights - You agree that on or before your termination of employment for any reason with the Company, you shall return to the Company all property owned by the Company or in which the Company has an interest, including files, documents, data and records (whether on paper or in tapes, disks, or other machine-readable form), office equipment, credit cards, and employee identification

cards. You acknowledge that the Company is the rightful owner of any programs, ideas, inventions, discoveries, patented or copyrighted material, or trademarks that you may have originated or developed, or assisted in originating or developing, during your period of employment with the Company, where any such origination or development involved the use of Company time, information or resources, or the exercise of your responsibilities for or on behalf of the Company. You shall at all times, both before and after termination of employment, cooperate with the Company in executing and delivering documents requested by the Company, and taking any other actions, that are necessary or requested by the Company to assist the Company in patenting, copyrighting, protecting, enforcing or registering any programs, ideas, inventions, discoveries, works of authorship, data, information, patented or copyrighted material, or trademarks, and to vest title thereto solely in the Company.

4. Proprietary And Confidential Information - You shall at all times preserve the confidentiality of all Proprietary Information (defined below) and trade secrets of the Company, except and to the extent that disclosure of such information is legally required. "Proprietary information" means information or data related to the Company, including information entrusted to the Company by others, which has not been fully disclosed to the public by the Company and which is treated as confidential or protected within the business of the Company or is of value to competitors, such as strategic or tactical business plans; undisclosed financial data; ideas, processes, methods, techniques, systems, non-public information, models, devices, programs, computer software, or related information; documents relating to regulatory matters and correspondence with governmental entities; undisclosed information concerning any past, pending, or threatened legal dispute; pricing and cost data; reports and analyses of business prospects; business transactions that are contemplated or planned; research data; personnel information and data; identities of users and purchasers of the Company's products or services; and other confidential matters pertaining to or known by the Company, including confidential information of a third party that you know or should know the Company is obligated to protect.

5. Definitions - Except where clearly provided to the contrary, all capitalized terms used in this Exhibit A shall have the definitions given to those terms in the Agreement to which this Exhibit A is attached.

6. Agreement to Covenants. You shall indicate your agreement to these Covenants in accordance with the instructions provided. You and Verizon hereby expressly agree that the use of electronic media to indicate confirmation, consent, signature, acceptance, agreement and delivery shall be legally valid and have the same legal force and effect as if you and Verizon executed these Covenants in paper form.

Performance Stock Unit Agreement (2003-05)	Exhibit A			

EXHIBIT 10j(ii)

**VERIZON COMMUNICATIONS INC. LONG-TERM INCENTIVE PLAN
PERFORMANCE STOCK UNIT AGREEMENT
2004-06 AWARD CYCLE**

AGREEMENT between Verizon Communications Inc. ("Verizon") and you (the "Participant").

1. Purpose of Agreement. The purpose of this Agreement is to provide a one-time grant of performance stock units ("PSUs") to the Participant.

2. Agreement. This Agreement is entered into pursuant to the terms of the 2001 Verizon Communications Inc. Long-Term Incentive Plan (the "Plan"), and evidences the grant of a performance stock award in the form of PSUs pursuant to the Plan. This Agreement is designed to comply with the requirements of Section 162(m) of the Code and the Treasury Department Regulations thereunder. The PSUs and this Agreement (including the covenants set forth in Exhibit A (the "Covenants"), which are incorporated into and shall be a part of the Agreement) are subject to the terms and provisions of the Plan. (The Participant may request a copy of the Plan from the Verizon

Compensation and Executive Benefits Department.) By executing this Agreement, the Participant agrees to be bound by the terms and provisions of the Plan, and by the actions of the Plan Administrator, the Human Resources Committee of Verizon's Board of Directors or any successor thereto (the "Committee"), and any designee of the Committee.

3. Contingency. The grant of PSUs is contingent on the Participant's timely acceptance of this Agreement and satisfaction of certain other conditions contained herein. If the Participant does not properly accept (or revokes acceptance of) this Agreement the Participant shall not be entitled to the PSUs.

4. Number of Units. The Participant is granted the number of PSUs specified on the cover letter provided in conjunction with this Agreement. A PSU is a hypothetical share of Verizon's common stock. The value of a PSU on any given date shall be equal to the closing price of Verizon's common stock as of such date. A PSU does not represent an equity interest in Verizon and carries no voting rights. A Dividend Equivalent Unit ("DEU") or fraction thereof shall be added to each PSU each time that a dividend is paid on Verizon's common stock. The amount of each DEU shall be equal to the dividend paid on a share of Verizon's common stock. The DEU shall be converted into PSUs or fractions thereof based upon the average of the high and low sales prices of Verizon's common stock traded on the New York Stock Exchange on the dividend payment date of each declared dividend on Verizon's common stock, and such PSUs or fractions thereof shall be added to the Participant's PSU balance.

5. Vesting.

(a) General. The Participant shall vest in the PSUs to the extent provided in paragraph 5(b) ("Performance Requirement") only if the Participant satisfies the requirements of paragraph 5(c) ("Three-Year Continuous Employment Requirement"), except as otherwise provided in paragraph 7 ("Early Cancellation/Accelerated Vesting of PSUs").

(b) Performance Requirement.

(1) The PSUs shall vest based on the average annual total shareholder return ("TSR") of Verizon's common stock during the three-year period beginning January 1, 2004, and ending December 31, 2006, relative to the combined weighted average annual TSR of the companies in

the Standard & Poor's 500 ("S&P 500") Index and the companies in the Telecom Peer Company ("TPC") Index during the same three-year period as provided in the following table:

Relative TSR Position	Vested Percentage of PSUs*
Below 20%	0%
20%	40%
30%	60%
40%	80%
50%	100%
60%	120%
70%	140%
80% or more	200%

*For amounts between 20% and 80%, the vested percentage of PSUs shall equal twice the Relative TSR Position (e.g., a Relative TSR Position of 52% equals a 104% vested percentage). However, the Committee's discretion to administer the Plan includes the absolute discretion to reduce the vested percentage of PSUs at any Relative TSR Position, and the Committee's exercise of this discretion shall be final, conclusive and binding.

Note: No PSUs shall vest if the Relative TSR Position is less than 20% and the maximum percentage of PSUs to vest shall be 200%.

(2) For purposes of the table set forth in paragraph 5(b)(1)-

(i) "Relative TSR Position" shall equal (A) 40% of the average annual Verizon S&P 500 TSR Position during the Award Cycle, plus (B) 60% of the average annual Verizon TPC TSR Position during the Award Cycle. The Committee's discretion to administer the Plan includes the absolute discretion to substitute or eliminate companies in the Telecom Peer Index and determine the Relative TSR Position for any period, and the Committee's exercise of this discretion shall be final, conclusive and binding.

(ii) "Verizon S&P 500 TSR Position" shall be, as determined by the Committee, Verizon's rank among companies in the S&P 500 Index in terms of TSR, expressed as a percentage equal to the number of companies in the S&P 500 Index with a TSR less than or equal to that of Verizon divided by the total number of companies in such index.

(iii) "Verizon TPC TSR Position" shall be, as determined by the Committee, where Verizon would rank among companies in the Telecom Peer Company Index in terms of TSR if Verizon were included in such index, expressed as a percentage equal to the number of companies in the TPC Index with a TSR less than or equal to that of Verizon divided by the total number of companies in such index.

(iv) "TSR" or "Total Shareholder Return" shall mean the change in the price of a share of common stock from the beginning of a period (as measured by the closing price of a share of such stock on the last trading day preceding the beginning of the period) until the end of such period (as measured by the closing price of a share of such stock on the last trading day of the period), adjusted to reflect the reinvestment of dividends (if any) through the purchase of common stock and as may be necessary to take into account stock splits or other events similar to those described in Section 4.3 of the Plan.

(v) "Award Cycle" shall mean the three-year period beginning on January 1, 2004, and ending at the close of business on December 31, 2006.

(c) Three-Year Continuous Employment Requirement. Except as otherwise determined by the Committee, the PSUs shall vest only if the Participant is continuously employed by the Company from the date the PSUs are granted through the end of the Award Cycle.

(d) Transfer. Transfer of employment from Verizon to a Related Company (as defined in paragraph 13), from a Related Company to Verizon, or from one Related Company to another Related Company shall not constitute a separation from employment hereunder, and service with a Related Company shall be treated as service with the Company for purposes of the three-year continuous employment requirement in paragraph 5 (c).

6. Payment. All payments under this Agreement shall be made in cash. As soon as practicable after the end of the Award Cycle, except as described in paragraph 7(c), the value of the PSUs (minus any withholding for income taxes) shall be paid to the Participant (subject, however, to any deferral application that the Participant has made under the deferral plan (if any) then available to the Participant and under procedures adopted by the Plan Administrator). If the Participant dies before any payment due hereunder is made, such payment shall be made to the Participant's beneficiary. Once a payment has been made with respect to a PSU, the PSU shall be canceled.

7. Early Cancellation/Accelerated Vesting of PSUs. Subject to the provisions of paragraph 7(c), PSUs may vest or be forfeited before vesting in accordance with paragraph 5 as follows:

(a) Voluntary Separation or Discharge for Cause.

(1) If the Participant is not eligible to Retire (as defined in paragraph 7(b)(5)) and (i) quits, (ii) is terminated for Cause (as defined below), or (iii) separates from employment under circumstances not described in paragraph 7(b), all then-unvested PSUs shall be canceled immediately and shall not be payable.

(2) For purposes of this Agreement, "Cause" means (i) grossly incompetent performance or substantial or continuing inattention to or neglect of the duties and responsibilities assigned to the Participant; fraud, misappropriation or embezzlement involving the Company; or a material breach of the Code of Business Conduct or any of the Covenants set forth in Exhibit A to this Agreement, all as determined by the Plan Administrator in its discretion, or (ii) commission of any felony of which the Participant is finally adjudged guilty by a court of competent jurisdiction.

(b) Retirement, Involuntary Termination Without Cause, Death or Disability.

(1) This paragraph 7(b) shall apply if, on or before the last day of the Award Cycle, the Participant:

(i) Retires (as defined below), or

(ii) Separates from employment by reason of an involuntary termination without Cause (as determined by the Plan Administrator), death, or disability.

(2) Subject to paragraph 7(b)(3), if the Participant separates from employment under circumstances described in paragraph 7(b)(1), the Participant's then-unvested PSUs shall be subject to the vesting provisions set forth in paragraph 5(a), except that the three-year continuous employment requirement set forth in paragraph 5(c) shall not apply, provided that the Participant does not commit a material breach of any of the Covenants and provided that the Participant executes a release satisfactory to the Company waiving any claims he may have against the Company.

(3) The Participant shall vest under this paragraph 7(b) only in a percentage of the PSUs that would otherwise have vested based upon the ratio of (i) the number of months the Participant was actively at work during the Award Cycle to (ii) the total number of months in the Award Cycle. For this purpose, a Participant who is actively at work through and including the 15th day of any month shall receive credit for the full month, and a Participant who is not actively at work through and including the 15th day of the month shall not receive any credit for that month.

(4) Any PSUs that vest pursuant to paragraph 7(b)(3) shall be payable as soon as practicable after the end of the Award Cycle, except as described in paragraph 7(c). However, the Plan Administrator's discretion to administer the Plan includes the absolute discretion to determine whether and the extent to which the Participant is eligible to receive DEUs with respect to dividends declared after the Participant's separation from employment, and the Plan Administrator's exercise of this discretion shall be final, conclusive and binding.

(5) For purposes of this Agreement, "Retire" means (i) to retire after having attained at least 15 years of Net Credited Service (as defined under the Verizon Management Pension Plan) and a combination of age and years of Net Credited Service that equals or exceeds 75 points, or (ii) retirement under any other circumstances determined in writing by the Plan Administrator.

(c) Change in Control. Upon the occurrence of a Change in Control (as defined in the Plan) on or before the last day of the Award Cycle, all then-unvested PSUs shall vest and be payable immediately (without prorating

of the award) at 50% of the maximum award payout without regard to the performance requirement in paragraph 5(b) or the three-year continuous employment requirement in paragraph 5(c); provided, however, that if the Participant terminates employment before the Change in Control occurs under the circumstances described in paragraph 7(b)(3), the immediately payable award described in this sentence shall be prorated as described in paragraph 7(b)(3). A Change in Control that occurs after the end of the Award Cycle shall have no effect on whether any PSUs vest or become payable. A Participant who receives the immediate award payment provided in this paragraph 7(c) shall be entitled to receive payment for all dividends declared before the Change in Control, even if such dividends are paid or payable after the Change in Control.

(d) Vesting Schedule. Except as provided in paragraphs 7(b) and (c), nothing in this paragraph 7 shall alter the vesting schedule prescribed by paragraph 5.

8. Shareholder Rights. The Participant shall have no rights as a shareholder with respect to shares of common stock to which this grant relates. Except as provided in the Plan or in this Agreement, no adjustment shall be made, for dividends or other rights for which the record date occurs while the PSUs are outstanding.

9. Revocation or Amendment of Agreement. Except to the extent required by law or specifically contemplated under this Agreement (including, but not limited to, the determination of Relative TSR Position, Verizon S&P 500 TSR Position, and Verizon TPC TSR Position, and whether the Participant has been terminated for Cause, has a disability, or has satisfied the three-year continuous employment

requirement), the Committee may not, without the written consent of the Participant, (a) revoke this Agreement insofar as it relates to the PSUs granted hereunder, or (b) make or change any determination or change any term, condition or provision affecting the PSUs if the determination or change would materially and adversely affect the PSUs or the Participant's rights thereto. Nothing in the preceding sentence shall preclude the Committee from exercising reasonable administrative discretion with respect to the Plan or this Agreement.

10. Assignment. The PSUs shall not be assignable or transferable except by will or by the laws of descent and distribution. During the Participant's lifetime, the PSUs may be deferred only by the Participant or by the Participant's guardian or legal representative.

11. Beneficiary. The Participant shall designate a beneficiary in writing and in such manner as is acceptable to the Plan Administrator. If the Participant fails to so designate a beneficiary, or if no such designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's estate.

12. Other Plans and Agreements. Any gain realized by the Participant pursuant to this Agreement shall not be taken into account as compensation in the determination of the Participant's benefits under any pension, savings, group insurance, or other benefit plan maintained by Verizon or a Related Company, except as determined by the board of directors of such company. The Participant acknowledges that receipt of this Agreement or any prior PSU agreement shall not entitle the Participant to any other benefits under the Plan or any other plans maintained by the Company.

13. Company and Related Company. For purposes of this Agreement, "Company" means collectively Verizon and Related Companies. "Related Company" means (a) any corporation, partnership, joint venture, or other entity in which Verizon holds a direct or indirect ownership or proprietary interest of 50 percent or more, or (b) any corporation, partnership, joint venture, or other entity in which Verizon holds an ownership or other proprietary interest of less than 50 percent but which, in the discretion of the Committee, is treated as a Related Company for purposes of this Agreement.

14. Employment Status. The grant of the PSUs shall not be deemed to constitute a contract of employment between the Company and the Participant, nor shall it constitute a right to remain in the employ of any such company.

15. Withholding. The Participant shall be responsible for any income taxes and the employee portion of any employment taxes that arise in connection with this grant of PSUs, and the Company shall make such arrangements as it deems necessary for withholding of any taxes it determines are required to be withheld pursuant to any applicable law or regulation.

16. Securities Laws. The Company shall not be required to make payment with respect to any shares of common stock prior to the admission of such shares to listing on any stock exchange on which the stock may then be listed and the completion of any registration or qualification of such shares under any federal or state law or rulings or regulations of any government body that the Company, in its sole discretion, determines to be necessary or advisable.

17. Committee Authority. The Committee shall have complete discretion in the exercise of its rights, powers, and duties under this Agreement. Any interpretation or construction of any provision of, and the determination of any question arising under, this Agreement shall be made by the Committee in its sole discretion and shall be final, conclusive, and binding. The Committee may designate any individual or individuals to perform any of its functions hereunder.

18. Successors. This Agreement shall be binding upon, and inure to the benefit of, any successor or successors of the Company and the person or entity to whom the PSUs may have been transferred by will, the laws of descent and distribution, or beneficiary designation. All terms and conditions of this Agreement imposed upon the Participant shall, unless the context clearly indicates otherwise, be deemed, in the event of the Participant's death, to refer to and be binding upon such last-mentioned person or entity.

19. Construction. This Agreement is intended to grant the PSUs upon the terms and conditions authorized by the Plan. Any provisions of this Agreement that cannot be so administered, interpreted, or construed shall be disregarded. In the event that any provision of this Agreement is held invalid or unenforceable by a court of competent jurisdiction, such provision shall be considered separate and apart from the remainder of this Agreement, which shall remain in full force and effect. In the event that any provision is held to be unenforceable for being unduly broad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to applicable law and shall be enforced as amended.

20. Defined Terms. Except where the context clearly indicates otherwise, all capitalized terms used herein shall have the definitions ascribed to them by the Plan, and the terms of the Plan shall apply where appropriate.

21. Execution of Agreement. The Participant shall indicate consent to the terms of this Agreement (including its Exhibit) and the Plan by executing this Agreement pursuant to the instructions provided and otherwise complying with the requirements of paragraph 3. The Participant and Verizon hereby expressly agree that the use of electronic media to indicate confirmation, consent, signature, acceptance, agreement and delivery shall be legally valid and have the same legal force and effect as if the Participant and Verizon executed this Agreement (including its Exhibit) in paper form.

22. Confidentiality. Except to the extent otherwise required by law, the Participant shall not disclose, in whole or in part, any of the terms of this Agreement. This paragraph 22 does not prevent the Participant from disclosing the terms of this Agreement to the Participant's spouse or to the Participant's legal, tax, or financial adviser, provided that the Participant take all reasonable measures to assure that he or she does not disclose the terms of this Agreement to a third party except as otherwise required by law.

23. Additional Remedies. In addition to any other rights or remedies, whether legal, equitable, or otherwise, that each of the parties to this Agreement may have (including the right of the Company to terminate the Participant for Cause), the Participant acknowledges that-

(a) The Covenants in Exhibit A to this Agreement are essential to the continued goodwill and profitability of the Company;

(b) The Participant has broad-based skills that will serve as the basis for employment opportunities that are not prohibited by the Covenants in Exhibit A;

(c) When the Participant's employment with the Company terminates, the Participant shall be able to earn a livelihood without violating any of the Covenants in Exhibit A;

(d) Irreparable damage to the Company shall result in the event that the Covenants in Exhibit A are not specifically enforced and that monetary damages will not adequately protect the Company from a breach of these Covenants;

(e) If any dispute arises concerning the violation by the Participant of the Covenants in Exhibit A, an injunction may be issued restraining such violation pending the determination of such controversy, and no bond or other security shall be required in connection therewith;

(f) Such Covenants shall continue to apply after any expiration, termination, or cancellation of this Agreement; and

(g) The Participant's breach of any of such Covenants shall result in the Participant's immediate forfeiture of all rights and benefits under this Agreement.

Exhibit A - Covenants

1. Noncompetition - In consideration for the benefits described in the Agreement to which this Exhibit A is attached, you, the Participant, agree that:

(a) Prohibited Conduct - During the period of your employment with the Company, and for the period ending six months after your termination of employment for any reason from the Company, you shall not, without the prior written consent of the Plan Administrator:

(1) personally engage in Competitive Activities (as defined below); or

(2) work for, own, manage, operate, control, or participate in the ownership, management, operation, or control of, or provide consulting or advisory services to, any individual, partnership, firm, corporation, or institution engaged in Competitive Activities, or any company or person affiliated with such person or entity engaged in Competitive Activities; provided that your purchase or holding, for investment purposes, of securities of a publicly traded company shall not constitute "ownership" or "participation in ownership" for purposes of this paragraph so long as your equity interest in any such company is less than a controlling interest;

provided that this paragraph (a) shall not prohibit you from (i) being employed by, or providing services to, a consulting firm, provided that you do not personally engage in Competitive Activities or provide consulting or advisory services to any individual, partnership, firm, corporation, or institution engaged in Competitive Activities, or any company or person affiliated with such person or entity engaged in Competitive Activities, or (ii) engaging in the private practice of law as a sole practitioner or as a partner in (or as an employee of or counsel to) a law firm in accordance with applicable legal and professional standards.

(b) Competitive Activities - For purposes of the Agreement to which this Exhibit A is attached, "Competitive Activities" means business activities relating to products or services of the same or similar type as the products or services (1) which are sold (or, pursuant to an existing business plan, will be sold) to

paying customers of the Company, and (2) for which you then have responsibility to plan, develop, manage, market, oversee or perform, or had any such responsibility within your most recent 24 months of employment with the Company. Notwithstanding the previous sentence, a business activity shall not be treated as a Competitive Activity if the geographic marketing area of the relevant products or services sold by you or a third party does not overlap with the geographic marketing area for the applicable products and services of the Company.

2. Interference With Business Relations - During the period of your employment with the Company, and for a period ending with the expiration of twelve (12) months following your termination of employment for any reason from the Company, you shall not, without the written consent of the Plan Administrator:

(a) recruit or solicit any employee of the Company for employment or for retention as a consultant or service provider;

(b) hire or participate (with another company or third party) in the process of hiring (other than for the Company) any person who is then an employee of the Company, or provide names or other

information about Company employees to any person, entity or business (other than the Company) under circumstances that could lead to the use of any such information for purposes of recruiting or hiring;

(c) interfere with the relationship of the Company with any of its employees, agents, or representatives;

(d) solicit or induce, or in any manner attempt to solicit or induce, any client, customer, or prospect of the Company (1) to cease being, or not to become, a customer of the Company or (2) to divert any business of such customer or prospect from the Company; or

(e) otherwise interfere with, disrupt, or attempt to interfere with or disrupt, the relationship, contractual or otherwise, between the Company and any of its customers, clients, prospects, suppliers, consultants, or employees.

3. Return Of Property; Intellectual Property Rights - You agree that on or before your termination of employment for any reason with the Company, you shall return to the Company all property owned by the Company or in which the Company has an interest, including files, documents, data and records (whether on paper or in tapes, disks, or other machine-readable form), office equipment, credit cards, and employee identification cards. You acknowledge that the Company is the rightful owner of any programs, ideas, inventions, discoveries, patented or copyrighted material, or trademarks that you may have originated or developed, or assisted in originating or developing, during your period of employment with the Company, where any such origination or development involved the use of Company time, information or resources, or the exercise of your responsibilities for or on behalf of the Company. You shall at all times, both before and after termination of employment, cooperate with the Company in executing and delivering documents requested by the Company, and taking any other actions, that are necessary or requested by the Company to assist the Company in patenting, copyrighting, protecting, enforcing or registering any programs, ideas, inventions, discoveries, works of authorship, data, information, patented or copyrighted material, or trademarks, and to vest title thereto solely in the Company.

4. Proprietary And Confidential Information - You shall at all times preserve the confidentiality of all Proprietary Information (defined below) and trade secrets of the Company, except and to the extent that disclosure of such information is legally required. "Proprietary information" means information or data related to the Company, including information entrusted to the Company by others, which has not been fully disclosed to the public by the Company and which is treated as confidential or protected within the business of the Company or is of value to competitors, such as strategic or tactical business plans; undisclosed financial data; ideas, processes, methods, techniques, systems, non-public information, models, devices, programs, computer software, or related information; documents relating to regulatory matters and correspondence with governmental entities; undisclosed information concerning any past, pending, or threatened legal dispute; pricing and cost data; reports and analyses

of business prospects; business transactions that are contemplated or planned; research data; personnel information and data; identities of users and purchasers of the Company's products or services; and other confidential matters pertaining to or known by the Company, including confidential information of a third party that you know or should know the Company is obligated to protect.

5. Definitions - Except where clearly provided to the contrary, all capitalized terms used in this Exhibit A shall have the definitions given to those terms in the Agreement to which this Exhibit A is attached.

6. Agreement to Covenants. You shall indicate your agreement to these Covenants in accordance with the instructions provided. You and Verizon hereby expressly agree that the use of electronic media to indicate confirmation, consent, signature, acceptance, agreement and delivery shall be legally valid and have the same legal force and effect as if you and Verizon executed these Covenants in paper form.

EXHIBIT 10j(iv)(a)

**ADDENDUM TO VERIZON COMMUNICATIONS INC. LONG-TERM INCENTIVE PLAN
PERFORMANCE STOCK UNIT AGREEMENT
FOR THE 2005-2007 AWARD CYCLE**

This is an addendum to the Performance Stock Unit Agreement for the 2005-2007 Award Cycle (the "Agreement") entered into between Verizon Communications Inc. ("Verizon" or the "Company") and Ivan Seidenberg (the "Participant"). The effective date of this addendum is March 3, 2006, and it shall remain in effect through December 31, 2007.

1. Purpose. The purpose of this addendum is to describe the terms of an arrangement between the Participant and the Company wherein the Participant can earn a long-term incentive payout under the Agreement, based on the extent to which the Company achieves certain strategic objectives (as defined in paragraph 3 below) during the Award Cycle. Except as modified by this addendum, all of the terms and conditions of the Agreement shall remain in effect.

2. Payment. Subject to the limitation set forth in paragraph 4 below, the Committee shall have the sole discretion to determine the size of any additional payment pursuant to this addendum, based on the Company's achievement of the strategic objectives referred to in paragraph 3 below. This addendum and any payment made in accordance with this addendum are not intended to comply with the Performance-Based Exception (set forth in Code Section 162(m)(4)(C)) to the tax deductibility limitation imposed by Code Section 162(m).

3. Achievement of Objectives. The Committee shall have the sole discretion to determine whether the Participant is entitled to a payout pursuant to this addendum and the size of any such payout (subject to the limitations contained in paragraph 4 below), based on the Company's achievement of strategic objectives related to the successful launch of Verizon Business, key legislative initiatives, FiOS and broad band initiatives, and wireless growth objectives during the Award Cycle; provided that no payment shall be made pursuant to this addendum unless the Committee determines that, at the end of the three-year Award Cycle specified in paragraph 5 of the Agreement, Verizon's average annual total shareholder return during the Award Cycle met the specific threshold performance requirement specified in said paragraph 5.

4. Aggregate Limitation. The amount of any payment made under paragraph 6 of the Agreement (including any amount attributable to stock appreciation and dividend equivalent units payable under the terms of the Agreement and disregarding any deferral election) plus the amount of any payment under this addendum (disregarding any deferral election) shall not exceed \$22.68 million.

5. Payment. Any payment pursuant to this addendum shall be made in cash. As soon as practicable after the end of the 2007 calendar year (but no later than March 15, 2008), the Committee shall determine whether an amount is to be paid pursuant to this addendum and the amount of any such payment. Any such amount (minus any withholding for taxes) shall be paid to the Participant no later than March 15, 2008 (subject, however, to any valid

deferral election that the Participant has made under the deferral plan (if any) then available to the Participant). If the Participant dies before any payment due hereunder is made, such payment shall be made to the Participant's beneficiary.

6. Defined Terms. Except where the context clearly indicates otherwise, all capitalized terms used herein shall have the definitions ascribed to them by the Plan or the Agreement, and the terms of the Plan or Agreement shall apply where appropriate.

IN WITNESS WHEREOF, the parties hereto have entered into this addendum as of March 3, 2006.

VERIZON COMMUNICATIONS INC.				THE PARTICIPANT			
By:	/ S /	M ARC C. R EED		By:	/ S /	I VAN G. S	
EIDENBERG							
		Marc C. Reed	Executive Vice President			Ivan G. Seidenberg	

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EXHIBIT 10j(v)

**VERIZON COMMUNICATIONS INC. LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT
2006-08 AWARD CYCLE**

AGREEMENT between Verizon Communications Inc. ("Verizon" or the "Company") and you (the "Participant") and your heirs and beneficiaries.

1. Purpose of Agreement. The purpose of this Agreement is to provide a grant of restricted stock units ("RSUs") to the Participant.

2. Agreement. This Agreement is entered into pursuant to the terms of the 2001 Verizon Communications Inc. Long-Term Incentive Plan (the "Plan"), and evidences the grant of a restricted stock award in the form of RSUs pursuant to the Plan. The RSUs and this Agreement (including the covenants set forth in Exhibit A (the "Covenants"), which are incorporated into and shall be a part of the Agreement) are subject to the terms and provisions of the Plan. By executing this Agreement, the Participant agrees to be bound by the terms and provisions of the Plan, this Agreement, and by the actions of the Human Resources Committee of Verizon Communication's Board of Directors or any successor thereto (the "Committee"), and any designee of the Committee. To the extent that there is a conflict between the terms of the Plan and the terms of this Agreement, the terms of this Agreement shall control.

3. Contingency. The grant of RSUs is contingent on the Participant's timely acceptance of this Agreement and satisfaction of the other conditions contained herein. If the Participant does not properly accept (or revokes acceptance of) this Agreement the Participant shall not be entitled to the RSUs regardless of the extent to which the vesting requirements in paragraph 5 ("Vesting") are satisfied.

4. Number of Units. The Participant is granted the number of RSUs as specified on their account under the 2006 RSU grant, administered by Fidelity Investments. A RSU is a hypothetical share of Verizon's common stock. The value of a RSU on any given date shall be equal to the closing price of Verizon's common stock on the New York

Stock Exchange as of such date. A RSU does not represent an equity interest in Verizon and carries no voting rights. A Dividend Equivalent Unit ("DEU") or fraction thereof shall be added to each RSU each time that a dividend is paid on Verizon's common stock. The amount of each DEU shall be equal to the dividend paid on a share of Verizon's common stock. The DEU shall be converted into RSUs or fractions thereof based upon the average of the high and low sales prices of Verizon's common stock traded on the New York Stock Exchange on the dividend payment date of each declared dividend on Verizon's common stock, and such RSUs or fractions thereof shall be added to the Participant's RSU balance. To the extent that Fidelity or the Company makes an administrative error with respect to the number or value of the RSUs granted to the Participant under this Agreement, the Company specifically reserves the right to correct such error and the Participant agrees that he or she shall be legally bound by any corrective action taken by the Company or the Plan Administrator.

5. Vesting.

(a) General. The Participant shall vest in the RSUs only if the Participant is continuously employed by the Company or a Related Company (as defined in paragraph 13) from the date the RSUs are granted through the end of the Award Cycle, except as otherwise provided in paragraph 7 ("Early Cancellation/Accelerated Vesting of RSUs") or as otherwise provided by the Committee. For purposes of these RSUs, "Award Cycle" shall mean the three-year period beginning on January 1, 2006, and ending at the close of business on December 31, 2008.

(b) Transfer. Transfer of employment from Verizon to a Related Company (as defined in paragraph 13), from a Related Company to Verizon, or from one Related Company to another Related Company shall not constitute a separation from employment hereunder, and service with a Related Company shall be treated as service with the Company for purposes of the three-year continuous employment requirement in paragraph 5 (a).

6. Payment. All payments under this Agreement shall be made in cash. As soon as practicable after the end of the Award Cycle (but in no event later than March 15, 2009), except as described in paragraph 7(c), the value of the vested RSUs (minus any withholding for taxes) shall be paid to the Participant (subject, however, to any deferral application that the Participant has made under the deferral plan (if any) then available to the Participant). The amount of cash that shall be paid (plus withholding for taxes and any applicable deferral election) shall equal the number of vested RSUs *times* the closing price of Verizon's common stock on the New York Stock Exchange as of the last trading day in the Award Cycle. If the Participant dies before any payment due hereunder is made, such payment shall be made to the Participant's beneficiary. Once a payment has been made with respect to a RSU, the RSU shall be canceled.

7. Early Cancellation/Accelerated Vesting of RSUs. Subject to the provisions of paragraph 7(c) and 5, RSUs may vest or be forfeited before vesting as follows:

(a) Retirement Before July 1, 2006, Voluntary Separation On or Before December 31, 2008 or Discharge for Cause On or Before December 31, 2008.

(1) If the Participant (i) Retires (as defined in paragraph 7(b)(4)) before July 1, 2006, (ii) quits on or before December 31, 2008, (iii) is terminated for Cause (as defined below) on or before December 31, 2008, or (iv) separates from employment on or before December 31, 2008 under circumstances not described in paragraph 7(b), all then-unvested RSUs shall be canceled immediately and shall not be payable.

(2) For purposes of this Agreement, "Cause" means (i) grossly incompetent performance or substantial or continuing inattention to or neglect of the duties and responsibilities assigned to the Participant; fraud, misappropriation or embezzlement involving the Company; or a material breach of the Verizon Code of Business Conduct or any of the Covenants set forth in Exhibit A to this Agreement, all as determined by the Executive Vice President - Human Resources of Verizon in his or her discretion, and

the exercise of such discretion shall be final, conclusive and binding, or (ii) commission of any felony of which the Participant is finally adjudged guilty by a court of competent jurisdiction.

(b) Retirement After June 30, 2006, Involuntary Termination Without Cause On or Before December 31, 2008, Termination Due to Death or Disability On or Before December 31, 2008.

(1) This paragraph 7(b) shall apply if the Participant:

(i) Retires (as defined below) after June 30, 2006, or

(ii) Separates from employment by reason of an involuntary termination without Cause (as determined by the Executive Vice President - Human Resources of Verizon), death, or disability (as defined below) on or before the last day of the Award Cycle. "Disability" shall mean the total and permanent disability of the Participant as defined by, or determined under, the Company's long-term disability benefit plan.

(2) If the Participant separates from employment prior to the end of the Award Cycle under circumstances described in paragraph 7(b)(1), the Participant's then-unvested RSUs shall vest without regard to the three-year continuous employment requirement set forth in paragraph 5(a), provided that the Participant has not and does not commit a material breach of any of the Covenants and provided that the Participant executes a release satisfactory to the Company waiving any claims he or she may have against the Company.

(3) Any RSUs that vest pursuant to paragraph 7(b)(2) shall be payable as soon as practicable after the end of the Award Cycle (but in no event later than March 15, 2009), except as described in paragraph 7(c). However, the Committee retains the discretion to determine whether and the extent to which the Participant is eligible to receive DEUs with respect to dividends declared after the Participant's separation from employment pursuant to paragraph 7(b)(1), and the Committee's exercise of this discretion shall be final, conclusive and binding.

(4) For purposes of this Agreement, "Retire" means (i) to retire after having attained at least 15 years of Net Credited Service (as defined under the Verizon Management Pension Plan) and a combination of age and years of Net Credited Service that equals or exceeds 75 points, or (ii) retirement under any other circumstances determined in writing by the Executive Vice President - Human Resources of Verizon.

(c) Change in Control. Upon the occurrence of a Change in Control of Verizon (as defined in the Plan) on or before the last day of the Award Cycle, all then-unvested RSUs shall vest and be payable immediately (without prorating of the award) without regard to the three-year continuous employment requirement in paragraph 5(a). A Change in Control that occurs after the end of the Award Cycle shall have no effect on whether any RSUs vest or become payable. A Participant who receives the immediate award payment provided in this paragraph 7(c) shall be entitled to receive payment for all DEUs earned before the Change in Control, even if such DEUs are paid or payable after the Change in Control.

(d) Vesting Schedule. Except and to the extent provided in paragraphs 7(b) and (c), nothing in this paragraph 7 shall alter the vesting schedule prescribed by paragraph 5.

8. Shareholder Rights. The Participant shall have no rights as a shareholder with respect to shares of common stock to which this grant relates. Except as provided in the Plan or in this Agreement, no adjustment shall be made, for dividends or other rights for which the record date occurs while the RSUs are outstanding.

9. Revocation or Amendment of Agreement. Except to the extent required by law or specifically contemplated under this Agreement (including, but not limited to, corrections of any administrative errors, the determination of

whether the Participant has been terminated for Cause, has a disability, or has satisfied the three-year continuous employment requirement), the Committee or the Executive Vice President - Human Resources of Verizon may not, without the written consent of the Participant, (a) revoke this Agreement insofar as it relates to the RSUs granted hereunder, or (b) make or change any determination or change any term, condition or provision affecting the RSUs if the determination or change would materially and adversely affect the RSUs or the Participant's legitimate rights thereto. Nothing in the preceding sentence shall preclude the Committee or the Executive Vice President - Human Resources of Verizon from exercising reasonable administrative discretion with respect to the Plan or this Agreement, and the exercise of such discretion shall be final, conclusive and binding.

10. Assignment. The RSUs shall not be assigned, pledged or transferred except by will or by the laws of descent and distribution. During the Participant's lifetime, the RSUs may be deferred only by the Participant or by the Participant's guardian or legal representative in accordance with the deferral regulations, if any, established by the Company.

11. Beneficiary. The Participant shall designate a beneficiary in writing and in such manner as is acceptable to the Executive Vice President - Human Resources of Verizon. If the Participant fails to so designate a beneficiary, or if no such designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's estate.

12. Other Plans and Agreements. Any payment received by the Participant pursuant to this Agreement shall not be taken into account as compensation in the determination of the Participant's benefits under any pension, savings, group insurance, severance or other benefit plan maintained by Verizon or a Related Company. The Participant acknowledges that receipt of this Agreement or any prior RSU agreement shall not entitle the Participant to any other benefits under the Plan or any other plans maintained by the Company or a Related Company.

13. Company and Related Company. For purposes of this Agreement, "Company" means Verizon Communications Inc. "Related Company" means (a) any corporation, partnership, joint venture, or other entity in which Verizon Communications Inc. holds a direct or indirect ownership or proprietary interest of 50 percent or more, or (b) any corporation, partnership, joint venture, or other entity in which Verizon Communications Inc. holds an ownership or other proprietary interest of less than 50 percent but which, in the discretion of the Committee, is treated as a Related Company for purposes of this Agreement.

14. Employment Status. The grant of the RSUs shall not be deemed to constitute a contract of employment for a particular term between the Company or a Related Company and the Participant, nor shall it constitute a right to remain in the employ of any such Company or Related Company.

15. Withholding. The Participant shall be responsible for any taxes that arise in connection with this grant of RSUs, and the Company shall make such arrangements as it deems necessary for withholding of any taxes it determines are required to be withheld pursuant to any applicable law or regulation.

16. Securities Laws. The Company shall not be required to make payment with respect to any shares of common stock prior to the admission of such shares to listing on any stock exchange on which the stock may then be listed and the completion of any registration or qualification of such shares under any federal or state law or rulings or regulations of any government body that the Company, in its discretion, determines to be necessary or advisable, and the exercise of such discretion shall be final, conclusive and binding.

17. Committee Authority. The Committee shall have complete discretion in the exercise of its rights, powers, and duties under this Agreement. Any interpretation or construction of any provision of, and the determination of any question arising under, this Agreement shall be made by the Committee in its discretion and such exercise shall be final, conclusive, and binding. The Committee may designate any individual or individuals to perform any of its functions hereunder.

18. Successors. This Agreement shall be binding upon, and inure to the benefit of, any successor or successors of the Company and the person or entity to whom the RSUs may have been transferred by will, the laws of descent and distribution, or beneficiary designation. All terms and conditions of this Agreement imposed upon the Participant shall, unless the context clearly indicates otherwise, be deemed, in the event of the Participant's death, to refer to and be binding upon the Participant's heirs and beneficiaries.

19. Construction. This Agreement is intended to grant the RSUs upon the terms and conditions authorized by the Plan. Any provisions of this Agreement that cannot be so administered, interpreted, or construed shall be disregarded. In the event that any provision of this Agreement is held invalid or unenforceable, such provision shall be considered separate and apart from the remainder of this Agreement, which shall remain in full force and effect. In the event that any provision, including any Covenant, is held to be unenforceable for being unduly broad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to applicable law and shall be enforced as amended.

20. Defined Terms. Except where the context clearly indicates otherwise, all capitalized terms used herein shall have the definitions ascribed to them by the Plan, and the terms of the Plan shall apply where appropriate.

21. Execution of Agreement. The Participant shall indicate consent to the terms of this Agreement (including its Exhibit) and the Plan by executing this Agreement pursuant to the instructions provided and otherwise shall comply with the requirements of paragraph 3. The Participant and Verizon hereby expressly agree that the use of electronic media to indicate confirmation, consent, signature, acceptance, agreement and delivery shall be legally valid and have the same legal force and effect as if the Participant and Verizon executed this Agreement (including its Exhibit) in paper form.

22. Confidentiality. Except to the extent otherwise required by law, the Participant shall not disclose, in whole or in part, any of the terms of this Agreement. This paragraph 22 does not prevent the Participant from disclosing the terms of this Agreement to the Participant's spouse or beneficiary or to the Participant's legal, tax, or financial adviser, provided that the Participant take all reasonable measures to assure that the individual to whom disclosure was made does not disclose the terms of this Agreement to a third party except as otherwise required by law.

23. Applicable Law. The validity, construction, interpretation and effect of this Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the conflicts of laws provisions thereof.

24. Notice. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of the Executive Vice President - Human Resources of Verizon at One Verizon Way, Basking Ridge, NJ 07920-1097 and any notice to the Participant shall be addressed to the Participant at the current address shown on the payroll of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

25. Dispute Resolution.

(a) General. Except as otherwise provided in paragraph 26 below, all disputes arising under the Plan or this Agreement and all claims in which a Participant seeks damages that relate in any way to RSUs or other benefits of the Plan are subject to the dispute resolution procedure described below in paragraph 25. The parties to this Agreement are not required to arbitrate Employment Claims, as defined in subsection (a)(ii) below, in which the Participant does not seek damages that relate in any way to RSUs or other benefits of the Plan or this Agreement.

(i) For purposes of this Agreement, the term "Units Award Dispute" shall mean any claim against the Company or a Related Company regarding (A) the interpretation of the Plan or this Agreement, (B) any of the terms or conditions of the RSUs issued under this

Agreement, or (C) allegations of entitlement to RSUs or additional RSUs, or any other benefits under the Plan, other than Employment Claims described in subsection (a)(ii) below; provided, however, that any dispute relating to the forfeiture of an award as a result of a breach of any of the Covenants contained in Exhibit A shall not be subject to the dispute resolution procedures provided for in this paragraph 25.

(ii) For purposes of this Agreement, the term “Units Damages Dispute” shall mean any employment related claims between the Participant and the Company or a Related Company or against the directors, officers, employees, representatives, or agents of the Company or a Related Company, including claims of alleged employment discrimination, wrongful termination, or violations of Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, the Age Discrimination in Employment Act, 42 U.S.C. § 1981, the Fair Labor Standards Act, the Family Medical Leave Act, the Sarbanes-Oxley Act, or any other federal, state or local law, statute, regulation, or ordinance relating to employment or any common law theories of recovery relating to employment, such as breach of contract, tort, or public policy claims (“Employment Claims”), in which the damages sought relate in any way to RSUs or other benefits of the Plan.

(b) Internal Dispute Resolution Procedure. All Units Award Disputes shall be referred in the first instance to the Verizon Employee Benefits Committee (“EB Committee”) for resolution internally within Verizon. Except where otherwise prohibited by law, all Units Award Disputes must be filed in writing with the EB Committee no later than one year from the date that the dispute accrues. Consistent with paragraph 25(c)(i) of this Agreement, decisions about the enforceability of the limitations period contained herein are for the arbitrator to decide. To the fullest extent permitted by law, the EB Committee shall have full power, discretion, and authority to interpret the Plan and this Agreement and to decide all Units Award Disputes brought under this Plan and Agreement before them. Determinations made by the EB Committee shall be final, conclusive and binding, subject only to review by arbitration pursuant to subsection (c) below under the arbitrary and capricious standard of review.

(c) Arbitration. All appeals from determinations of Units Award Disputes by the EB Committee as described in subsection (b) above, as well as all Units Damages Disputes, shall be submitted to the American Arbitration Association (“AAA”) for final and binding arbitration on an individual basis (and not on a collective or class action basis) before a single arbitrator pursuant to its Commercial Arbitration Rules in effect at the time this grant is accepted. Except where otherwise prohibited by law, all appeals of Units Award Disputes and all Units Damages Disputes must be filed in writing with the AAA no later than one year from the date that the appeal or dispute accrues. Consistent with paragraph 25(c)(i) of this Agreement, decisions about the enforceability of the limitations period contained herein are for the arbitrator to decide. If the Participant and either the Company or a Related Company are party to any prior agreement to arbitrate claims before the AAA under rules other than its Commercial Arbitration Rules, claims that are arbitrable under any such agreements shall be submitted to the AAA for disposition under its Commercial Arbitration Rules together with disputes that are arbitrable under this Agreement in order to promote expeditious and efficient dispute resolution. A copy of the AAA’s Commercial Arbitration Rules may be obtained from Human Resources. The arbitration shall be held at the office of the AAA nearest the place of the Participant’s most recent employment by the Company or a Related Company, unless the parties agree to a different location. All claims by the Company or a Related Company against the Participant, except for breaches of any of the Covenants, shall also be raised in such arbitration proceedings.

(i) The arbitrator shall have the authority to determine whether this arbitration agreement is enforceable and whether any dispute submitted for arbitration hereunder is arbitrable. The arbitrator shall decide all issues submitted for arbitration according to the terms of the Plan, this Agreement, existing Company policy, and applicable substantive state and federal law and shall have the authority to award any remedy or relief which could be awarded by a court. The decision of the arbitrator shall be final and binding and enforceable in any applicable court.

(ii) **The Participant understands and agrees that when Units Award Disputes or Units Damages Disputes are submitted for arbitration pursuant to this Agreement, both the Participant and the Company or a Related Company waive any right to sue each other in a court of law or equity, to have a trial by jury, or to resolve disputes on a collective, or class, basis, and that the sole forum available for the resolution of such issues is arbitration as provided herein. This dispute resolution procedure shall not prevent either the Participant or the Company or a Related Company from commencing an action in any court of competent jurisdiction for the purpose of obtaining injunctive relief to prevent irreparable harm pending arbitration hereunder; in such event, both the Participant and the Company or a Related Company agree that the party who commences the action may proceed without necessity of posting a bond.**

(iii) In consideration of the Participant's agreement in subsection (ii) above, the Company or a Related Company will pay all filing, administrative and arbitrator's fees incurred in connection with the arbitration proceedings. If the AAA requires the Participant to pay the initial filing fee, the Company or a Related Company will reimburse the Participant for that fee.

(iv) The parties intend that the arbitration procedure to which they hereby agree shall be the exclusive means for resolving all Units Award Disputes and Units Damages Disputes. Their agreement in this regard shall be interpreted as broadly and inclusively as reason permits to realize that intent.

(v) Notwithstanding any other provision of this Agreement, this dispute resolution provision shall be governed by laws of the State of New York to the extent that it is not governed by the Federal Arbitration Act.

26. Additional Remedies. Notwithstanding the dispute resolution procedures, including arbitration, of paragraph 25 of this Agreement, and in addition to any other rights or remedies, whether legal, equitable, or otherwise, that each of the parties to this Agreement may have (including the right of the Company to terminate the Participant for Cause), the Participant acknowledges that-

(a) The Covenants in Exhibit A to this Agreement are essential to the continued goodwill and profitability of the Company;

(b) The Participant has broad-based skills that will serve as the basis for employment opportunities that are not prohibited by the Covenants in Exhibit A;

(c) When the Participant's employment with the Company terminates, the Participant shall be able to earn a livelihood without violating any of the Covenants in Exhibit A;

(d) Irreparable damage to the Company shall result in the event that the Covenants in Exhibit A are not specifically enforced and that monetary damages will not adequately protect the Company from a breach of these Covenants;

(e) If any dispute arises concerning the violation or anticipated or threatened violation by the Participant of any of the Covenants in Exhibit A, an injunction may be issued restraining such violation pending the determination of such controversy, and no bond or other security shall be required in connection therewith;

(f) The Covenants in Exhibit A shall continue to apply after any expiration, termination, or cancellation of this Agreement;

(g) The Participant's breach of any of the Covenants in Exhibit A shall result in the Participant's immediate forfeiture of all rights and benefits, including all RSUs and DEUs, under this Agreement; and

(h) All disputes relating to the Covenants in Exhibit A, including their interpretation and enforceability and any damages (including but not limited to damages resulting in the forfeiture of an award under this Agreement) that may result from the breach of such Covenants, shall not be subject to the dispute resolution procedures, including arbitration, of paragraph 25 of this Agreement, but shall instead be determined in a court of competent jurisdiction.

Exhibit A - Covenants

1. Noncompetition - In consideration for the benefits described in the Agreement to which this Exhibit A is attached and other good and valuable consideration, you, the Participant, agree that:

(a) Prohibited Conduct - During the period of your employment with the Company or any Related Company, and for the period ending twelve (12) months following a termination of your employment for any reason with the Company or any Related Company, you shall not, without the prior written consent of the Executive Vice President - Human Resources of Verizon:

(1) personally engage in Competitive Activities (as defined below); or

(2) work for, own, manage, operate, control, or participate in the ownership, management, operation, or control of, or provide consulting or advisory services to, any person, partnership, firm, corporation, institution or other entity engaged in Competitive Activities, or any company or person affiliated with such person or entity engaged in Competitive Activities; provided that your purchase or holding, for investment purposes, of securities of a publicly traded company shall not constitute "ownership" or "participation in the ownership" for purposes of this paragraph so long as your equity interest in any such company is less than a controlling interest;

provided that this paragraph (a) shall not prohibit you from (i) being employed by, or providing services to, a consulting firm, provided that you do not personally engage in Competitive Activities or provide consulting or advisory services to any individual, partnership, firm, corporation, institution or other entity engaged in Competitive Activities, or any person or entity affiliated with such individual, partnership, firm, corporation, institution or other entity engaged in Competitive Activities, or (ii) engaging in the private practice of law as a sole practitioner or as a partner in (or as an employee of or counsel to) a law firm in accordance with applicable legal and professional standards.

(b) Competitive Activities - For purposes of the Agreement, to which this Exhibit A is attached, "Competitive Activities" means activities relating to products or services of the same or similar type as the products or services (1) which are sold (or, pursuant to an existing business plan, will be sold) to paying customers of the Company or any Related Company, and (2) for which you have responsibility to plan, develop, manage, market, oversee or perform, or had any such responsibility within your most recent 24 months of employment with the Company or any Related Company. Notwithstanding the previous sentence, an activity shall not be treated as a Competitive Activity if the geographic marketing area of the relevant products or services does not overlap with the geographic marketing area for the applicable products and services of the Company or any Related Company.

2. Interference With Business Relations - During the period of your employment with the Company or any Related Company, and for a period ending with the expiration of twelve (12) months following a termination of your employment for any reason with the Company or any Related Company, you shall not, without the written consent of the Executive Vice President - Human Resources of Verizon:

(a) recruit, induce or solicit any employee, directly or indirectly, of the Company or Related Company for

employment or for retention as a consultant or service provider;

(b) hire or participate (with another person or entity) in the process of hiring (other than for the Company or any Related Company) any person who is then an employee of the Company or any Related Company, or provide names or other information about any employees of the Company or Related Company to

any person or entity (other than the Company or any Related Company), directly or indirectly, under circumstances that could lead to the use of any such information for purposes of recruiting, soliciting or hiring;

(c) interfere, directly or indirectly, with the relationship of the Company or any Related Company with any of its employees, agents, or representatives;

(d) solicit or induce, or in any manner attempt to solicit or induce, directly or indirectly, any client, customer, or prospect of the Company or any Related Company (1) to cease being, or not to become, a customer of the Company or any Related Company or (2) to divert any business of such customer or prospect from the Company or any Related Company; or

(e) otherwise interfere with, disrupt, or attempt to interfere with or disrupt, the relationship, contractual or otherwise, between the Company or any Related Company and any of its customers, clients, prospects, suppliers, consultants, employees, agents, or representatives.

3. Return Of Property; Intellectual Property Rights - You agree that on or before termination of your employment for any reason with the Company or any Related Company, you shall return to the Company all property owned by the Company or any Related Company or in which the Company or any Related Company has an interest, including files, documents, data and records (whether on paper or in tapes, disks, or other machine-readable form), office equipment, credit cards, and employee identification cards. You acknowledge that the Company (or, as applicable, a Related Company) is the rightful owner of, and you hereby do assign, all right, title and interest in and to any programs, ideas, inventions, discoveries, patentable or copyrighted material, or trademarks that you may have originated or developed, or assisted in originating or developing, during your period of employment with the Company or a Related Company, where any such origination or development involved the use of Company or Related Company time, information or resources, was made in the exercise of your responsibilities for or on behalf of the Company or a Related Company or was related to the Company's or a Related Company's business or to the Company's or a Related Company's actual or demonstrably anticipated research or development. You shall at all times, both before and after termination of your employment, cooperate with the Company (or, as applicable, any Related Company) in executing and delivering documents requested by the Company or a Related Company, and taking any other actions, that are necessary or requested by the Company or a Related Company to assist the Company or any Related Company in patenting, copyrighting, protecting, enforcing or registering any programs, ideas, inventions, discoveries, works of authorship, data, information, patentable or copyrighted material, or trademarks, and to vest title thereto solely in the Company (or, as applicable, a Related Company).

4. Proprietary And Confidential Information - You shall at all times, including after any termination of your employment with the Company or any Related Company, preserve the confidentiality of all Proprietary Information (defined below) and trade secrets of the Company or any Related Company, and you shall not use for the benefit of any person, other than the Company or a Related Company, or disclose to any person, except and to the extent that disclosure of such information is legally required, any Proprietary Information or trade secrets of the Company or any Related Company. "Proprietary Information" means any information or data related to the Company or any Related Company, including information entrusted to the Company or a Related Company by others, which has not been fully disclosed to the public by the Company or a Related Company and which is treated as confidential or protected within the Company or any Related Company or is of value to competitors, such as strategic or tactical business plans; undisclosed business, operational or financial data; ideas, processes, methods, techniques, systems, models, devices, programs, computer software, or related information; documents relating to

regulatory matters or correspondence with governmental entities; undisclosed information concerning any past, pending, or threatened legal dispute; pricing or cost data; the identity, reports or analyses of business prospects; business transactions that are contemplated or planned; research data; personnel information or data; identities of users or purchasers of the Company's or Related Company's products or services; the Agreement to which this Exhibit A is attached; and other non-public

information pertaining to or known by the Company or a Related Company, including confidential or non-public information of a third party that you know or should know the Company or a Related Company is obligated to protect.

5. Definitions - Except where clearly provided to the contrary, all capitalized terms used in this Exhibit A shall have the definitions given to those terms in the Agreement to which this Exhibit A is attached.

6. Agreement to Covenants. You shall indicate your agreement to these Covenants in accordance with the instructions provided in the Agreement, and your acceptance of the Agreement shall include your acceptance of these Covenants. You and Verizon hereby expressly agree that the use of electronic media to indicate confirmation, consent, signature, acceptance, agreement and delivery shall be legally valid and have the same legal force and effect as if you and Verizon executed these Covenants in paper form.

EXHIBIT 10j(vi)

**VERIZON COMMUNICATIONS INC. LONG-TERM INCENTIVE PLAN
PERFORMANCE STOCK UNIT AGREEMENT
2006-08 AWARD CYCLE**

AGREEMENT between Verizon Communications Inc. ("Verizon" or the "Company") and you (the "Participant") and your heirs and beneficiaries.

1. Purpose of Agreement. The purpose of this Agreement is to provide a grant of performance stock units ("PSUs") to the Participant.

2. Agreement. This Agreement is entered into pursuant to the terms of the 2001 Verizon Communications Inc. Long-Term Incentive Plan (the "Plan"), and evidences the grant of a performance stock award in the form of PSUs pursuant to the Plan. This Agreement is intended to comply with the requirements of Section 162(m) of the Code and the Treasury Department Regulations thereunder. The PSUs and this Agreement (including the covenants set forth in Exhibit A (the "Covenants"), which are incorporated into and shall be a part of the Agreement) are subject to the terms and provisions of the Plan. By executing this Agreement, the Participant agrees to be bound by the terms and provisions of the Plan, this Agreement and by the actions of the Human Resources Committee of Verizon Communication's Board of Directors or any successor thereto (the "Committee"), and any designee of the Committee. To the extent that there is a conflict between the terms of the Plan and the terms of this Agreement, the terms of this Agreement shall control.

3. Contingency. The grant of PSUs is contingent on the Participant's timely acceptance of this Agreement and satisfaction of the other conditions contained herein. If the Participant does not properly accept (or revokes acceptance of) this Agreement the Participant shall not be entitled to the PSUs regardless of the extent to which the vesting requirements in paragraph 5 ("Vesting") are satisfied.

4. Number of Units. The Participant is granted the number of PSUs as specified on their account under the 2006 PSU grant, administered by Fidelity Investments. A PSU is a hypothetical share of Verizon's common stock. The value of a PSU on any given date shall be equal to the closing price of Verizon's common stock on the New York Stock Exchange as of such date. A PSU does not represent an equity interest in Verizon and carries no voting rights. A Dividend Equivalent Unit ("DEU") or fraction thereof shall be added to each PSU each time that a dividend is paid on Verizon's common stock. The amount of each DEU shall be equal to the dividend paid on a

share of Verizon's common stock. The DEU shall be converted into PSUs or fractions thereof based upon the average of the high and low sales prices of Verizon's common stock traded on the New York Stock Exchange on the dividend payment date of each declared dividend on Verizon's common stock, and such PSUs or fractions thereof shall be added to the Participant's PSU balance. To the extent that Fidelity or the Company makes an administrative error with respect to the number or value of the PSUs granted to the Participant under this Agreement, the Company specifically reserves the right to correct such error and the Participant agrees that he or she shall be legally bound by any corrective action taken by the Company or the Plan Administrator.

5. Vesting.

(a) General. The Participant shall vest in the PSUs to the extent provided in paragraph 5(b) ("Performance Requirement") only if the Participant satisfies the requirements of paragraph 5(c) ("Three-Year Continuous Employment Requirement"), except as otherwise provided in paragraph 7 ("Early Cancellation/Accelerated Vesting of PSUs").

(b) Performance Requirement.

(1) **General.** The PSUs shall vest based on the average annual total shareholder return ("TSR") of Verizon's common stock during the three-year period beginning January 1, 2006, and ending at the close of business on December 31, 2008 (the "Award Cycle"), relative to the combined weighted average annual TSR of the companies in the Standard & Poor's 500 ("S&P 500") Index and the companies in the Industry Peer Company ("IPC") Index during the same three-year period. No PSUs shall vest unless the Committee determines that certain threshold performance requirements have been satisfied. The formula for determining the total number of PSUs that may vest and become payable (the "Payout Formula") will equal the number of units that you are granted as described in paragraph 4 (plus any additional PSUs added with respect to DEUs credited over the Award Cycle) *times* the Total Vested Percentage (as defined below). For example, if (a) you are granted 1,000 PSUs, and (b) those PSUs are credited with an additional 150 PSUs as a result of DEUs paid over the Award Cycle, and (c) the Total Vested Percentage is 96%, you will generally vest in (1,000 PSUs + 150 PSUs from DEUs) *times* 96%, or 1,104 PSUs, which shall be payable in cash as described in paragraph 6. Please note that the Committee retains the discretion to determine the Total Vested Percentage, the Verizon S&P 500 Vested Percentage, the Verizon IPC Vested Percentage and the extent to which you are eligible to receive DEUs with respect to dividends declared after your separation from employment pursuant to paragraph 7(b)(1), and the Committee's exercise of this discretion shall be final, conclusive and binding.

(2) **Definitions.** For purposes of the performance requirement and Payout Formula set forth in paragraph 5(b)(1)-

(i) "Total Vested Percentage" shall be *equal to* (i) 40% of the average annual Verizon S&P 500 Vested Percentage during the Award Cycle, *plus* (ii) 60% of the average annual Verizon IPC Vested Percentage during the Award Cycle.

(ii) "Verizon S&P 500 Vested Percentage" shall be an amount (between 0% and 200%), as determined by the Committee, for each year in the Award Cycle as provided in the following table:

Verizon S&P 500 TSR Position	Verizon S&P 500 Vested Percentage
Below 20%	0%
At least 20% but less than 80%	2 Times the Verizon S&P 500 TSR

Position

80% or more	200%
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(iii) “Verizon S&P 500 TSR Position” shall be, as determined by the Committee, Verizon’s rank among companies in the S&P 500 Index in terms of TSR, expressed as a percentage equal to the number of companies in the S&P 500 Index (including Verizon) with a TSR less than or equal to that of Verizon divided by the total number of companies in such index. The Committee retains the discretion to determine the Verizon S&P 500 TSR Position for any period, and the Committee’s exercise of this discretion shall be final, conclusive and binding.

(iv) “Verizon IPC Vested Percentage” shall be an amount (between 0% and 200%), as determined by the Committee, for each year in the Award Cycle as provided in the following table:

Verizon IPC TSR Position	Verizon IPC Vested Percentage
Below 20%	0%
At least 20% but less than 55%	1.5 times the Verizon IPC TSR Position
55%	100%
More than 55%	2 times the Verizon IPC TSR Position

(v) “Verizon IPC TSR Position” shall be, as determined by the Committee, where Verizon would rank among companies in an Industry Peer Company Index in terms of TSR if Verizon were included in such index, expressed as a percentage equal to the number of companies in the IPC Index (including Verizon) with a TSR less than or equal to that of Verizon divided by the total number of companies in such index. The Committee retains the discretion to substitute, add or eliminate companies in the Industry Peer Company Index and to determine the Verizon IPC TSR Position for any period, and the Committee’s exercise of this discretion shall be final, conclusive and binding.

(vi) “TSR” or “Total Shareholder Return” shall mean the change in the price of a share of common stock from the beginning of a period (as measured by the closing price of a share of such stock on the last trading day preceding the beginning of the period) until the end of such period (the “Measurement Period”)(as measured by the closing price of a share of such stock on the last trading day of the period), adjusted to reflect the reinvestment of dividends (if any) through the purchase of common stock and as may be necessary to take into account stock splits or other events similar to those described in Section 4.3 of the Plan. Measurement Periods may vary between and/or during an Award Cycle, and may or may not be coextensive with the Award Cycle. The Committee retains the discretion to determine and to change the Measurement Periods which shall be used to calculate TSRs for the Award Cycle, both before and during the Award Cycle, and the Committee’s exercise of this discretion shall be final, conclusive and binding.

(c) Three-Year Continuous Employment Requirement. Except as otherwise determined by the Committee, or except as otherwise provided in paragraph 7(b), the PSUs shall vest only if the Participant is continuously employed by the Company from the date the PSUs are granted through the end of the Award Cycle.

(d) Transfer. Transfer of employment from Verizon to a Related Company (as defined in paragraph 13), from a Related Company to Verizon, or from one Related Company to another Related Company shall not constitute a separation from employment hereunder, and service with a Related Company shall be treated as service with the Company for purposes of the three-year continuous employment requirement in paragraph 5(c).

6. Payment. All payments under this Agreement shall be made in cash. As soon as practicable after the end of the Award Cycle (but in no event later than March 15, 2009), except as described in paragraph 7(c), the value of the vested PSUs (minus any withholding for taxes) shall be paid to the Participant (subject, however, to any deferral application that the Participant has made under the deferral plan (if any) then available to the Participant). The amount of cash that shall be paid (plus withholding for taxes and any applicable deferral election) shall equal the number of vested PSUs *times* the closing price of Verizon's common stock on the New York Exchange as of the last trading day in the Award Cycle. If the Participant dies before any payment due hereunder is made, such payment shall be made to the Participant's beneficiary. Once a payment has been made with respect to a PSU, the PSU shall be canceled.

7. Early Cancellation/Accelerated Vesting of PSUs. Subject to the provisions of paragraph 7(c) and 5, PSUs may vest or be forfeited before vesting as follows:

(a) Retirement Before July 1, 2006, Voluntary Separation On or Before December 31, 2008 or Discharge for Cause On or Before December 31, 2008.

(1) If the Participant (i) Retires (as defined in paragraph 7(b)(4)) before July 1, 2006, (ii) quits on or before December 31, 2008, (iii) is terminated for Cause (as defined below) on or before December 31, 2008, or (iv) separates from employment on or before December 31, 2008 under circumstances not described in paragraph 7(b), all then-unvested PSUs shall be canceled immediately and shall not be payable.

(2) For purposes of this Agreement, "Cause" means (i) grossly incompetent performance or substantial or continuing inattention to or neglect of the duties and responsibilities assigned to the Participant; fraud, misappropriation or embezzlement involving the Company; or a material breach of the Verizon Code of Business Conduct or any of the Covenants set forth in Exhibit A to this Agreement, all as determined by the Executive Vice President - Human Resources of Verizon in his or her discretion, and the exercise of such discretion shall be final, conclusive and binding, or (ii) commission of any felony of which the Participant is finally adjudged guilty by a court of competent jurisdiction.

(b) Retirement After June 30, 2006, Involuntary Termination Without Cause On or Before December 31, 2008, Termination Due to Death or Disability On or Before December 31, 2008.

(1) This paragraph 7(b) shall apply if the Participant:

(i) Retires (as defined below) after June 30, 2006, or

(ii) Separates from employment by reason of an involuntary termination without Cause (as determined by the Executive Vice President - Human Resources of Verizon), death, or disability (as defined below) on or before the last day of the Award Cycle. "Disability" shall mean the total and permanent disability of the Participant as defined by, or determined under, the Company's long-term disability benefit plan.

(2) If the Participant separates from employment prior to the end of the Award Cycle under circumstances described in paragraph 7(b)(1), the Participant's then-unvested PSUs shall be subject to the vesting provisions set forth in paragraph 5(a), except that the three-year continuous employment requirement set forth in paragraph 5(c) shall not apply, provided that the Participant has not and does

not commit a material breach of any of the Covenants and provided that the Participant executes a release satisfactory to the Company waiving any claims he may have against the Company.

(3) Any PSUs that vest pursuant to paragraph 7(b)(2) shall be payable as soon as practicable after the end of the Award Cycle (but in no event later than March 15, 2009), except as described in paragraph 7(c). However, the Committee retains the discretion to determine whether and the extent to which the Participant is eligible to receive DEUs with respect to dividends declared after the Participant's separation from employment pursuant to paragraph 7(b)(1), and the Committee's exercise of this discretion shall be final, conclusive and binding.

(4) For purposes of this Agreement, "Retire" means (i) to retire after having attained at least 15 years of Net Credited Service (as defined under the Verizon Management Pension Plan) and a

combination of age and years of Net Credited Service that equals or exceeds 75 points, or (ii) retirement under any other circumstances determined in writing by the Executive Vice President - Human Resources of Verizon.

(c) Change in Control. Upon the occurrence of a Change in Control of Verizon (as defined in the Plan) on or before the last day of the Award Cycle, all then-unvested PSUs shall vest and be payable immediately (without prorating of the award) at 50% of the maximum award payout without regard to the performance requirement in paragraph 5(b) or the three-year continuous employment requirement in paragraph 5(c). A Change in Control that occurs after the end of the Award Cycle shall have no effect on whether any PSUs vest or become payable. A Participant who receives the immediate award payment provided in this paragraph 7(c) shall be entitled to receive payment for all DEUs earned before the Change in Control, even if such DEUs are paid or payable after the Change in Control.

(d) Vesting Schedule. Except and to the extent provided in paragraphs 7(b) and (c), nothing in this paragraph 7 shall alter the vesting schedule prescribed by paragraph 5.

8. Shareholder Rights. The Participant shall have no rights as a shareholder with respect to shares of common stock to which this grant relates. Except as provided in the Plan or in this Agreement, no adjustment shall be made, for dividends or other rights for which the record date occurs while the PSUs are outstanding.

9. Revocation or Amendment of Agreement. Except to the extent required by law or specifically contemplated under this Agreement (including, but not limited to, corrections of any administrative errors, the determination of the total percentage of PSUs that become payable, the Measurement Period or Periods for the Award Cycle, Verizon's or any other company's TSR, Verizon S&P 500 TSR Position, and Verizon IPC TSR Position, and whether the Participant has been terminated for Cause, has a disability, or has satisfied the three-year continuous employment requirement), the Committee or the Executive Vice President - Human Resources of Verizon may not, without the written consent of the Participant, (a) revoke this Agreement insofar as it relates to the PSUs granted hereunder, or (b) make or change any determination or change any term, condition or provision affecting the PSUs if the determination or change would materially and adversely affect the PSUs or the Participant's legitimate rights thereto. Nothing in the preceding sentence shall preclude the Committee or the Executive Vice President - Human Resources of Verizon from exercising reasonable administrative discretion with respect to the Plan or this Agreement, and the exercise of such discretion shall be final, conclusive and binding.

10. Assignment. The PSUs shall not be assigned, pledged or transferred except by will or by the laws of descent and distribution. During the Participant's lifetime, the PSUs may be deferred only by the Participant or by the Participant's guardian or legal representative in accordance with the deferral regulations, if any, established by the Company.

11. Beneficiary. The Participant shall designate a beneficiary in writing and in such manner as is acceptable to the Executive Vice President - Human Resources of Verizon. If the Participant fails to so designate a beneficiary, or if

no such designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's estate.

12. Other Plans and Agreements. Any payment received by the Participant pursuant to this Agreement shall not be taken into account as compensation in the determination of the Participant's benefits under any pension, savings, group insurance, severance or other benefit plan maintained by Verizon or a Related Company. The Participant acknowledges that receipt of this Agreement or any prior PSU agreement shall

not entitle the Participant to any other benefits under the Plan or any other plans maintained by the Company or Related Company.

13. Company and Related Company. For purposes of this Agreement, "Company" means Verizon Communications Inc. "Related Company" means (a) any corporation, partnership, joint venture, or other entity in which Verizon Communications Inc. holds a direct or indirect ownership or proprietary interest of 50 percent or more, or (b) any corporation, partnership, joint venture, or other entity in which Verizon Communications Inc. holds an ownership or other proprietary interest of less than 50 percent but which, in the discretion of the Committee, is treated as a Related Company for purposes of this Agreement.

14. Employment Status. The grant of the PSUs shall not be deemed to constitute a contract of employment for a particular term between the Company or a Related Company and the Participant, nor shall it constitute a right to remain in the employ of any such Company or Related Company.

15. Withholding. The Participant shall be responsible for any taxes that arise in connection with this grant of PSUs, and the Company shall make such arrangements as it deems necessary for withholding of any taxes it determines are required to be withheld pursuant to any applicable law or regulation.

16. Securities Laws. The Company shall not be required to make payment with respect to any shares of common stock prior to the admission of such shares to listing on any stock exchange on which the stock may then be listed and the completion of any registration or qualification of such shares under any federal or state law or rulings or regulations of any government body that the Company, in its discretion, determines to be necessary or advisable, and the exercise of such discretion shall be final, conclusive and binding.

17. Committee Authority. The Committee shall have complete discretion in the exercise of its rights, powers, and duties under this Agreement. Any interpretation or construction of any provision of, and the determination of any question arising under, this Agreement shall be made by the Committee in its discretion and such exercise shall be final, conclusive, and binding. The Committee may designate any individual or individuals to perform any of its functions hereunder.

18. Successors. This Agreement shall be binding upon, and inure to the benefit of, any successor or successors of the Company and the person or entity to whom the PSUs may have been transferred by will, the laws of descent and distribution, or beneficiary designation. All terms and conditions of this Agreement imposed upon the Participant shall, unless the context clearly indicates otherwise, be deemed, in the event of the Participant's death, to refer to and be binding upon the Participant's heirs and beneficiaries.

19. Construction. This Agreement is intended to grant the PSUs upon the terms and conditions authorized by the Plan. Any provisions of this Agreement that cannot be so administered, interpreted, or construed shall be disregarded. In the event that any provision of this Agreement is held invalid or unenforceable, such provision shall be considered separate and apart from the remainder of this Agreement, which shall remain in full force and effect. In the event that any provision, including any Covenant, is held to be unenforceable for being unduly broad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to applicable law and shall be enforced as amended.

20. Defined Terms. Except where the context clearly indicates otherwise, all capitalized terms used herein shall

have the definitions ascribed to them by the Plan, and the terms of the Plan shall apply where appropriate.

21. Execution of Agreement. The Participant shall indicate consent to the terms of this Agreement (including its Exhibit) and the Plan by executing this Agreement pursuant to the instructions provided and otherwise shall comply with the requirements of paragraph 3. The Participant and Verizon hereby expressly agree that the use of electronic media to indicate confirmation, consent, signature, acceptance, agreement and delivery shall be legally valid and have the same legal force and effect as if the Participant and Verizon executed this Agreement (including its Exhibit) in paper form.

22. Confidentiality. Except to the extent otherwise required by law, the Participant shall not disclose, in whole or in part, any of the terms of this Agreement. This paragraph 22 does not prevent the Participant from disclosing the terms of this Agreement to the Participant's spouse or beneficiary or to the Participant's legal, tax, or financial adviser, provided that the Participant take all reasonable measures to assure that the individual to whom disclosure is made does not disclose the terms of this Agreement to a third party except as otherwise required by law.

23. Applicable Law. The validity, construction, interpretation and effect of this Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the conflicts of laws provisions thereof.

24. Notice. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of the Executive Vice President - Human Resources of Verizon at One Verizon Way, Basking Ridge, NJ, 07920-1097 and any notice to the Participant shall be addressed to the Participant at the current address shown on the payroll of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by telecopy or enclosed in a properly sealed envelope as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

25. Dispute Resolution.

(a) **General.** Except as otherwise provided in paragraph 26 below, all disputes arising under the Plan or this Agreement and all claims in which a Participant seeks damages that relate in any way to PSUs or other benefits of the Plan are subject to the dispute resolution procedure described below in this paragraph 25. The parties to this Agreement are not required to arbitrate Employment Claims, as defined in subsection (a)(ii) below, in which the Participant does not seek damages that relate in any way to PSUs or other benefits of the Plan or this Agreement.

(i) For purposes of this Agreement, the term "Units Award Dispute" shall mean any claim against the Company or a Related Company regarding (A) the interpretation of the Plan or this Agreement, (B) any of the terms or conditions of the PSUs issued under this Agreement, or (C) allegations of entitlement to PSUs or additional PSUs, or any other benefits under the Plan, other than Employment Claims described in subsection (a)(ii) below; provided, however, that any dispute relating to the forfeiture of an award as a result of a breach of any of the Covenants contained in Exhibit A shall not be subject to the dispute resolution procedures provided for in this paragraph 25.

(ii) For purposes of this Agreement, the term "Units Damages Dispute" shall mean any employment related claims between the Participant and the Company or a Related Company or against the directors, officers, employees, representatives, or agents of the Company or a Related Company, including claims of alleged employment discrimination, wrongful termination, or violations of Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, the Age Discrimination in Employment Act, 42 U.S.C. § 1981, the Fair Labor Standards Act, the Family Medical Leave Act, the Sarbanes-Oxley

Act, or any other federal, state or local law, statute, regulation, or ordinance relating to employment or any common law theories of recovery relating to employment, such as breach of contract, tort, or public

policy claims (“Employment Claims”), in which the damages sought relate in any way to PSUs or other benefits of the Plan.

(b) Internal Dispute Resolution Procedure. All Units Award Disputes shall be referred in the first instance to the Verizon Employee Benefits Committee (“EB Committee”) for resolution internally within Verizon. Except where otherwise prohibited by law, all Units Award Disputes must be filed in writing with the EB Committee no later than one year from the date that the dispute accrues. Consistent with paragraph 25(c)(i) of this Agreement, decisions about the enforceability of the limitations period contained herein are for the arbitrator to decide. To the fullest extent permitted by law, the EB Committee shall have full power, discretion, and authority to interpret the Plan and this Agreement and to decide all Units Award Disputes brought under this Plan and Agreement before them. Determinations made by the EB Committee shall be final, conclusive and binding, subject only to review by arbitration pursuant to subsection (c) below under the arbitrary and capricious standard of review.

(c) Arbitration. All appeals from determinations of Units Award Disputes by the EB Committee as described in subsection (b) above, as well as all Units Damages Disputes, shall be submitted to the American Arbitration Association (“AAA”) for final and binding arbitration on an individual basis (and not on a collective or class action basis) before a single arbitrator pursuant to its Commercial Arbitration Rules in effect at the time this grant is accepted. Except where otherwise prohibited by law, all appeals of Units Award Disputes and all Units Damages Disputes must be filed in writing with the AAA no later than one year from the date that the appeal or dispute accrues. Consistent with paragraph 25(c)(i) of this Agreement, decisions about the enforceability of the limitations period contained herein are for the arbitrator to decide. If the Participant and either the Company or a Related Company are party to any prior agreement to arbitrate claims before the AAA under rules other than its Commercial Arbitration Rules, claims that are arbitrable under any such agreements shall be submitted to the AAA for disposition under its Commercial Arbitration Rules together with disputes that are arbitrable under this Agreement in order to promote expeditious and efficient dispute resolution. A copy of the AAA’s Commercial Arbitration Rules may be obtained from Human Resources. The arbitration shall be held at the office of the AAA nearest the place of the Participant’s most recent employment by the Company or a Related Company, unless the parties agree to a different location. All claims by the Company or a Related Company against the Participant, except for breaches of any of the Covenants, shall also be raised in such arbitration proceedings.

(i) The arbitrator shall have the authority to determine whether this arbitration agreement is enforceable and whether any dispute submitted for arbitration hereunder is arbitrable. The arbitrator shall decide all issues submitted for arbitration according to the terms of the Plan, this Agreement, existing Company policy, and applicable substantive state and federal law and shall have the authority to award any remedy or relief which could be awarded by a court. The decision of the arbitrator shall be final and binding and enforceable in any applicable court.

(ii) The Participant understands and agrees that when Units Award Disputes or Units Damages Disputes are submitted for arbitration pursuant to this Agreement, both the Participant and the Company or a Related Company waive any right to sue each other in a court of law or equity, to have a trial by jury, or to resolve disputes on a collective, or class, basis, and that the sole forum available for the resolution of such issues is arbitration as provided herein. This dispute resolution procedure

shall not prevent either the Participant or the Company or a Related Company from commencing an action in any court of competent jurisdiction for the purpose of obtaining injunctive relief to prevent irreparable harm pending arbitration hereunder; in such event, both the Participant and the Company or a Related Company agree that the party who commences the action may proceed without necessity of posting a bond.

(iii) In consideration of the Participant’s agreement in subsection (ii) above, the Company or a Related Company will pay all filing, administrative and arbitrator’s fees incurred in connection with the

arbitration proceedings. If the AAA requires the Participant to pay the initial filing fee, the Company or a Related Company will reimburse the Participant for that fee.

(iv) The parties intend that the arbitration procedure to which they hereby agree shall be the exclusive means for resolving all Units Award Disputes and Units Damages Disputes. Their agreement in this regard shall be interpreted as broadly and inclusively as reason permits to realize that intent.

(v) Notwithstanding any other provision of this Agreement, this dispute resolution provision shall be governed by laws of the State of New York to the extent that it is not governed by the Federal Arbitration Act.

26. Additional Remedies. Notwithstanding the dispute resolution procedures, including arbitration, of paragraph 25 of this Agreement, and in addition to any other rights or remedies, whether legal, equitable, or otherwise, that each of the parties to this Agreement may have (including the right of the Company to terminate the Participant for Cause), the Participant acknowledges that-

(a) The Covenants in Exhibit A to this Agreement are essential to the continued goodwill and profitability of the Company;

(b) The Participant has broad-based skills that will serve as the basis for employment opportunities that are not prohibited by the Covenants in Exhibit A;

(c) When the Participant's employment with the Company terminates, the Participant shall be able to earn a livelihood without violating any of the Covenants in Exhibit A;

(d) Irreparable damage to the Company shall result in the event that the Covenants in Exhibit A are not specifically enforced and that monetary damages will not adequately protect the Company from a breach of these Covenants;

(e) If any dispute arises concerning the violation or anticipated or threatened violation by the Participant of any of the Covenants in Exhibit A, an injunction may be issued restraining such violation pending the determination of such controversy, and no bond or other security shall be required in connection therewith;

(f) The Covenants in Exhibit A shall continue to apply after any expiration, termination, or cancellation of this Agreement;

(g) The Participant's breach of any of the Covenants in Exhibit A shall result in the Participant's immediate forfeiture of all rights and benefits, including all PSUs and DEUs, under this Agreement; and

(h) All disputes relating to the Covenants in Exhibit A, including their interpretation and enforceability and any damages (including but not limited to damages resulting in the forfeiture of an award under this Agreement) that may result from the breach of such Covenants, shall not be subject to the dispute resolution procedures, including arbitration, of paragraph 25 of this Agreement, but shall instead be determined in a court of competent jurisdiction.

Exhibit A-Covenants

1. Noncompetition - In consideration for the benefits described in the Agreement to which this Exhibit A is attached and other good and valuable consideration, you, the Participant, agree that:

(a) Prohibited Conduct - During the period of your employment with the Company or any Related Company, and for the period ending twelve (12) months following a termination of your employment for any reason with the Company or any Related Company, you shall not, without the prior written consent of the Executive Vice President - Human Resources of Verizon:

(1) personally engage in Competitive Activities (as defined below); or

(2) work for, own, manage, operate, control, or participate in the ownership, management, operation, or control of, or provide consulting or advisory services to, any person, partnership, firm, corporation, institution or other entity engaged in Competitive Activities, or any company or person affiliated with such person or entity engaged in Competitive Activities; provided that your purchase or holding, for investment purposes, of securities of a publicly traded company shall not constitute "ownership" or "participation in the ownership" for purposes of this paragraph so long as your equity interest in any such company is less than a controlling interest;

provided that this paragraph (a) shall not prohibit you from (i) being employed by, or providing services to, a consulting firm, provided that you do not personally engage in Competitive Activities or provide consulting or advisory services to any individual, partnership, firm, corporation, institution or other entity engaged in Competitive Activities, or any person or entity affiliated with such individual, partnership, firm, corporation, institution or other entity engaged in Competitive Activities, or (ii) engaging in the private practice of law as a sole practitioner or as a partner in (or as an employee of or counsel to) a law firm in accordance with applicable legal and professional standards.

(b) Competitive Activities - For purposes of the Agreement, to which this Exhibit A is attached, "Competitive Activities" means activities relating to products or services of the same or similar type as the products or services (1) which are sold (or, pursuant to an existing business plan, will be sold) to paying customers of the Company or any Related Company, and (2) for which you have responsibility to plan, develop, manage, market, oversee or perform, or had any such responsibility within your most recent 24 months of employment with the Company or any Related Company. Notwithstanding the previous sentence, an activity shall not be treated as a Competitive Activity if the geographic marketing area of the relevant products or services does not overlap with the geographic marketing area for the applicable products and services of the Company or any Related Company.

2. Interference With Business Relations - During the period of your employment with the Company or any Related Company, and for a period ending with the expiration of twelve (12) months following a termination of your employment for any reason with the Company or any Related Company, you shall not, without the written consent of the Executive Vice President - Human Resources of Verizon:

(a) recruit, induce or solicit any employee, directly or indirectly, of the Company or Related Company for employment or for retention as a consultant or service provider;

(b) hire or participate (with another person or entity) in the process of hiring (other than for the Company or any Related Company) any person who is then an employee of the Company or any Related Company, or provide names or other information about any employees of the Company or Related Company to

any person or entity (other than the Company or any Related Company), directly or indirectly, under circumstances that could lead to the use of any such information for purposes of recruiting, soliciting or hiring;

(c) interfere, directly or indirectly, with the relationship of the Company or any Related Company with any of its employees, agents, or representatives;

(d) solicit or induce, or in any manner attempt to solicit or induce, directly or indirectly, any client, customer,

or prospect of the Company or any Related Company (1) to cease being, or not to become, a customer of the Company or any Related Company or (2) to divert any business of such customer or prospect from the Company or any Related Company; or

(e) otherwise interfere with, disrupt, or attempt to interfere with or disrupt, the relationship, contractual or otherwise, between the Company or any Related Company and any of its customers, clients, prospects, suppliers, consultants, employees, agents, or representatives.

3. Return Of Property; Intellectual Property Rights - You agree that on or before termination of your employment for any reason with the Company or any Related Company, you shall return to the Company all property owned by the Company or any Related Company or in which the Company or any Related Company has an interest, including files, documents, data and records (whether on paper or in tapes, disks, or other machine-readable form), office equipment, credit cards, and employee identification cards. You acknowledge that the Company (or, as applicable, a Related Company) is the rightful owner of, and you hereby do assign, all right, title and interest in and to any programs, ideas, inventions, discoveries, patentable or copyrighted material, or trademarks that you may have originated or developed, or assisted in originating or developing, during your period of employment with the Company or a Related Company, where any such origination or development involved the use of Company or Related Company time, information or resources, was made in the exercise of your responsibilities for or on behalf of the Company or a Related Company or was related to the Company's or a Related Company's business or to the Company's or a Related Company's actual or demonstrably anticipated research or development. You shall at all times, both before and after termination of your employment, cooperate with the Company (or, as applicable, any Related Company) in executing and delivering documents requested by the Company or a Related Company, and taking any other actions, that are necessary or requested by the Company or a Related Company to assist the Company or any Related Company in patenting, copyrighting, protecting, enforcing or registering any programs, ideas, inventions, discoveries, works of authorship, data, information, patentable or copyrighted material, or trademarks, and to vest title thereto solely in the Company (or, as applicable, a Related Company).

4. Proprietary And Confidential Information - You shall at all times, including after any termination of your employment with the Company or any Related Company, preserve the confidentiality of all Proprietary Information (defined below) and trade secrets of the Company or any Related Company, and you shall not use for the benefit of any person, other than the Company or a Related Company, or disclose to any person, except and to the extent that disclosure of such information is legally required, any Proprietary Information or trade secrets of the Company or any Related Company. "Proprietary Information" means any information or data related to the Company or any Related Company, including information entrusted to the Company or a Related Company by others, which has not been fully disclosed to the public by the Company or a Related Company and which is treated as confidential or protected within the Company or any Related Company or is of value to competitors, such as strategic or tactical business plans; undisclosed business, operational or financial data; ideas, processes, methods, techniques, systems, models, devices, programs, computer software, or related information; documents relating to regulatory matters or correspondence with governmental entities; undisclosed information concerning any past, pending, or threatened legal dispute; pricing or cost data; the identity, reports or analyses of business prospects; business transactions that are contemplated or planned; research data; personnel information or data; identities of users or purchasers of the Company's or Related Company's products or services; the Agreement to which this Exhibit A is attached; and other non-public

information pertaining to or known by the Company or a Related Company, including confidential or non-public information of a third party that you know or should know the Company or a Related Company is obligated to protect.

5. Definitions - Except where clearly provided to the contrary, all capitalized terms used in this Exhibit A shall have the definitions given to those terms in the Agreement to which this Exhibit A is attached.

6. Agreement to Covenants. You shall indicate your agreement to these Covenants in accordance with the instructions provided in the Agreement, and your acceptance of the Agreement shall include your acceptance of

these Covenants. You and Verizon hereby expressly agree that the use of electronic media to indicate confirmation, consent, signature, acceptance, agreement and delivery shall be legally valid and have the same legal force and effect as if you and Verizon executed these Covenants in paper form.

EXHIBIT 10v

V ERIZON E XECUTIVE D EFERRAL P LAN S UMMARY P LAN D ESCRIPTION

V ERIZON E XECUTIVE D EFERRAL P LAN

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VERIZON EXECUTIVE DEFERRAL PLAN

INTRODUCTION

The Verizon Executive Deferral Plan (the “Plan” or “EDP”) provides an easy way for you to set aside a portion of your annual base salary, your entire short-term incentive award and certain long-term incentive awards for the future in order to avoid current Federal, State and Local income taxes (where applicable) and to receive valuable contributions from Verizon (the “Company”). It reaches beyond the limits of a traditional 401(k) to provide exceptional value. For non-employee directors, it allows for the deferral of your annual cash retainer and associated meeting fees and equity compensation.

- The EDP allows you to defer a portion of your annual base salary, all of your short-term incentive award or non-employee director’s annual retainer and associated meeting fees and certain long-term incentive awards that otherwise provide for deferral into the Plan; and
- The EDP also allows you to receive the full company matching contribution on the amounts you defer up to 6% of your compensation, without any limitations imposed by the Internal Revenue Code. However, non-employee members of the board of directors are not eligible for any company matching contributions, and the deferral of any

long-term incentive awards also will not be eligible for company matching contributions.

Because the EDP is an account-based plan, your benefit will equal the balance in a hypothetical account kept for you under the Plan. You can invest your EDP account in a broad variety of investment options and your account balance will increase or decrease depending on the performance of the investments you choose. Therefore, you should exercise care when making your investment choices.

The savings opportunities of the EDP mean you can set aside significantly more money for your future than you could if you could make deferrals only under the management savings plan. Verizon expects these advantages to serve you well as you strive to meet your future financial goals.

You should be aware that the Plan succeeds the Verizon Income Deferral Plan (the "IDP") and the Verizon Deferred Compensation Plan for Non-Employee Directors (the "Directors' Plan"), which were frozen as of December 31, 2004. If you were a participant in the IDP or the Directors' Plan, vested amounts in your account in those plans as of December 31, 2004, remain in those plans and subject to the rules that govern those plans. However, in order to comply with changes in the law that were effective January 1, 2005, amounts in your IDP account that were not vested as of December 31, 2004, have been transferred to the EDP and are now subject to the rules that govern EDP accounts generally.

This booklet is intended to summarize the terms of the Executive Deferral Plan, effective January 1, 2006. To the extent this summary conflicts with the terms of the Plan, the terms of the Plan will control. If you would like to review the terms of the Plan or if you have any questions about your Plan benefits, please contact the Total Rewards department at 1-888-560-3669.

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Nature of Plan and Benefit	Your Plan benefit is expressed in terms of an account balance and will equal the value of that account balance when you receive payments from the Plan. The value of your account balance will increase or decrease based upon your investment elections. The Plan is an unfunded, nonqualified benefit plan.
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Deferrals for Active Participants	<ul style="list-style-type: none"> • You can defer up to 100% of the portion of your base salary that exceeds a limit included in the Internal Revenue Code (\$220,000 in 2006) (your "Eligible Base Salary"). • You can defer up to 100% of your short-term incentive award or directors' cash retainer and associated meeting fees. • You may also be able to defer up to 100% of your long-term incentive award or annual equity grant to the extent otherwise permitted under the terms of the award. • Generally, deferral elections for Eligible Base Salary or directors' fees for a year must be submitted during an enrollment period in November or December of the preceding year and cannot be changed after December 31st of that preceding year. For example, if you make an election in December 2005 to defer a percentage of your 2006 base salary, you cannot change that election after December 31, 2005, and it will remain in effect for all of 2006. • Generally, deferral elections for performance
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based short-term and long-term incentive awards must be made during an enrollment period in May or June of the year in which the award is earned and cannot be changed after June 30th of that year. For example, if you make an election in June 2005 to defer a percentage of your short-term incentive award earned in 2006 (and payable in 2007), you cannot change that election after June 30, 2006, and it will remain in effect for all of 2006. • If you are promoted or hired into an eligible position, you will be provided a 30-day window in which to submit your salary and/or incentive deferral elections, if appropriate. A similar rule applies to newly-appointed non-employee members of the board of directors.

Company Contributions	<ul style="list-style-type: none"> The Company will add a “matching contribution credit” to your account equal to- <ul style="list-style-type: none"> if you defer at least 6% of the sum of your Eligible Base Salary and short-term incentive under the Plan, 5% of the sum of your Eligible Base Salary and short-term incentive; or if you defer less than 6% of the sum of your Eligible Base Salary and short-term incentive under the Plan, 100% of the first 4% and 50% of the next 2% of the sum of the Eligible Base Salary and short-term incentive that you defer. Non-employee members of the board of directors are not eligible for any company matching contribution credits. Any deferrals of long-term incentive awards are not eligible for company matching contribution credits.
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Account Investments	Generally, you can elect to have your EDP account treated as if it were invested in any of the investment options available under the Verizon Savings Plan for Management Employees. You can also elect to have your EDP account treated as if it were invested in an account that provides a return that mirrors the yield on certain corporate bonds.
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Distributions from the Plan of Your Personal Deferrals	<ul style="list-style-type: none"> At the time you elect to defer you must also elect when and how you would like to have your benefit distributed. You may elect one of the following distribution forms: <ul style="list-style-type: none"> One lump sum payment; or Annual installments (for between 2 and 20 years). Distributions can generally begin at separation from service or on a specified date either before or after your separation from service. If you elect to receive a distribution based on a specified date rather than beginning at separation from service, the earliest you can receive a distribution with respect to a deferred amount is at least 2 years following the year the full deferral has been credited to your account. If you elect to receive a lump sum or begin receiving installments at separation from service, your distribution election is irrevocable. If you elect to receive a distribution based on a specific date, you can change your distribution elections with respect to a deferred amount provided that (1) you make the election change at least 12 months prior to the original distribution date, (2) you delay the date you would have otherwise received your distributions by at least 5 years, and (3) you will not receive your distribution sooner or over a shorter period of time. You may not switch from annual installments to a lump sum distribution.
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Distributions from the Plan of Company Contributions	All Company contributions in your EDP account (including amounts transferred to the EDP from the IDP or Directors’ Plan) will be distributed in a lump sum payment following your separation from service (or six months after your separation from service if you are a
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“key” employee).

Vesting	<ul style="list-style-type: none">• Your personal deferrals under the Plan are vested immediately.• The matching contribution credits vest at the same time you vest in the matching contributions under the Verizon Savings Plan for Management Employees.• Your matching contribution credits will also vest if your employment is involuntarily terminated without cause and you sign a release, if you become disabled, if you die, or if there is a change in control of Verizon.• Any other Company contributions transferred to the EDP from another plan (including Retirement Contribution Credits transferred from the IDP) will vest according to the vesting schedule in place under the other plan at the time of the transfer.
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You can participate in the Plan on either an “active” or an “inactive” basis. The principal difference between the two is that, as an “active” participant, you can make deferrals into your EDP account and you are eligible to receive matching contribution credits. As either an “active” or “inactive” participant, you can invest your EDP account in the investment options available under the Plan and make elections that will determine when you receive distributions of your Plan account.

A CTIVE P ARTICIPATION

If you were a director level employee or above (“Eligible Participant”) or a non-employee member of the Company’s Board of Directors (the “Board”) on January 1, 2005, you automatically became an active participant in the Plan on that date. If you were hired or promoted to an Eligible Participant position or became a non-employee member of the Company’s Board of Directors after January 1, 2005, you will automatically become an active participant in the Plan on the date you become an Eligible Participant or a non-employee member of the Board. Once you become an active participant, you will remain an active participant eligible for the Plan provisions applicable to Eligible Participants for as long as you are an Eligible Participant or a non-employee member of the Board. If you are demoted to position not eligible for participation in the EDP, you will become an inactive participant after your demotion.

I NACTIVE P ARTICIPATION

You will become an inactive participant if your employment with the Company ends, if you decide not to defer any part of your Eligible Base Salary, short-term incentive, long-term incentive or director’s fees under the Plan, if you are demoted below the status of director or any equivalent level, or if you cease to be a non-employee member of the Board. Once you become an inactive participant, you will remain an inactive participant as long as you have a positive balance in your EDP account or until you again become an active participant.

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Depending on the circumstances under which you became an active participant, you might have a beginning balance in your EDP account when you first become eligible for the Plan provisions applicable to active participants.

If you participated in the Verizon Income Deferral Plan (IDP) or the Verizon Deferred Compensation Plan for Non-Employee Directors (Directors' Plan) prior to January 1, 2005, any unvested benefit under those plans was transferred to the EDP and credited to your EDP account as a beginning balance. (As noted in "Effect on Other Benefit Plans" beginning on page 14, you will no longer be eligible for a benefit under the plan from which the benefit was transferred with respect to the amounts transferred to the EDP.) Any amounts in your beginning EDP account that were transferred from the IDP will be characterized as "Personal Deferral Credits," "Matching Contribution Credits," or "Retirement Contribution Credits" (as defined below) by the Plan's administrator depending on the nature of those credits under the plan from which the amounts were transferred.

Amounts transferred to the Plan might be subject to various restrictions in addition to those described in this summary. The Plan's administrator will advise you if any such restrictions apply to any part of your EDP account.

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The balance in your EDP account can increase while you are an active participant through your deferral of salary, short-term incentive, long-term incentives, directors' fees or annual equity awards into your EDP account and through Company Matching Contributions that are credited to your EDP account. As previously noted, the value of your account may also increase or decrease due to investment performance.

Your Deferral of Compensation

Personal Deferral Credits

The Internal Revenue Code limits the amount of your pay that can be treated as "compensation" under the Company's "qualified" savings plan and "qualified" pension plan. This limit is \$220,000 for the year 2006. Any base salary you earn over this limit is referred to under the Plan as "Eligible Base Salary."

You can elect to defer receipt of all or part of your Eligible Base Salary or your director's fees into your EDP account. In addition, you may defer all or part of your short-term incentive from the Short-Term Incentive Plan into your EDP account, provided that you are still an active participant in the Plan when the short-term incentive is payable. You may also be able to defer receipt of certain other forms of compensation (including certain long-term incentive awards) if permitted by the Plan's administrator.

If you elect to defer compensation under the Plan, you waive your right to receive the amount deferred at the time it would otherwise be paid and agree instead to receive the amount deferred under the terms of the Plan.

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Any deferrals of Eligible Base Salary, short-term incentive, long-term incentive or directors' fees are known under the Plan as "Personal Deferral Credits," and the balance of your EDP account attributable to Personal Deferral Credits, including any investment earnings (or minus any investment losses) on these credits, is known as your "Employee Balance."

Making an Election to Defer Compensation

If you elect to defer all or part of your Eligible Base Salary, short-term incentive, director's fee, or other eligible compensation, your election must be made according to any terms and conditions the Plan's administrator may impose.

Eligible Base Salary deferral elections must be submitted during an annual enrollment period specified by the Plan's administrator. This enrollment period will generally be in November or December of the year prior to when the salary is earned. (For example, elections with respect to 2006 base salary must be made during November or December of 2005.) At the time you elect to defer Eligible Base Salary, you must also make an election on how and when you would like to receive your payments of those deferred amounts.

Your election will apply only to Eligible Base Salary earned in the year *after* the year in which you make the election-you cannot make your election retroactive. Your election will remain in effect only through the end of the tax year for which the election was made and will not be renewed automatically for the following year. In addition, you can not change or revoke your election after December 31st. (For example, the election you make in November or December of 2005 will remain in effect throughout 2006 unless you change it before December 31, 2005.) Similar rules apply to the deferral of directors' fees.

To defer all or part of your performance based short-term incentive or long-term incentive, you must submit an annual election to the Plan's administrator during the specified enrollment period, generally in May or June before the year in which the award becomes payable. (For example, you will make your deferral election with respect to your 2006 annual bonus (which is payable in 2007) during May or June 2006.) Performance based short-term and long-term incentive deferrals are irrevocable after June 30th. Your election will remain in effect only until the end of the year for which the election is made and will not be renewed automatically for the following year.

If you are promoted or hired into an eligible position, you will be provided a 30-day window in which to submit your salary and/or incentive deferral elections, if appropriate, for the year of your hire or promotion. (You will be treated just like all other participants for each subsequent year.) A newly eligible employee who does not submit a deferral election within 30 days of the effective date of hire or promotion will be considered to have elected not to defer any salary or incentive compensation for the year in which he or she was hired or promoted. This is true with respect to incentive awards even if you are hired or promoted before the specified enrollment period in May or June. In other words, if you are hired into an eligible position in

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March 2006, you must make your deferral elections for 2006 salary and any 2006 bonuses within 30 days of your

date of hire, even though participants who have participated in the Plan for the entire year are not required to make deferral elections with respect to their 2006 bonuses until May or June 2006. In addition, individuals who are promoted into eligible positions during the year will be able to defer only a pro-rated portion of their bonus for the year of the promotion.

All personal deferral credits are managed in class years. Compensation deferred as follows constitutes one class year:

- One full tax year of Eligible Base Salary or directors' fees; and
- One annual short-term or long-term incentive award.

Each class year requires a corresponding distribution election. If no distribution election is made, your deferrals for that class year will be distributed as explained in "Default Form and Timing of Payments" beginning on page 11.

The Company's Contributions

Matching Contribution Credits

If you elect to defer all or part of your Eligible Base Salary and/or short-term incentive, you will receive additional credits in your EDP account when your Personal Deferral Credits are credited to your EDP account. These credits are known under the Plan as "Matching Contribution Credits," and the balance of your EDP account attributable to Matching Contribution Credits, including any investment earnings (or minus any investment losses) on these credits, is known as your "Employer Balance." Matching Contribution Credits are designed to replicate the Company matching contributions under the Company's "qualified" savings plan. Non-employee Directors are not eligible for Matching Contribution Credits.

For each Plan year, your Matching Contribution Credits will be determined as follows-

- If you defer at least 6% of the sum of your Eligible Base Salary and short-term incentive into your EDP account, you will receive Matching Contribution Credits equal to 5% of the sum of your Eligible Base Salary and short-term incentive; or
- If you defer less than 6% of the sum of your Eligible Base Salary and short-term incentive into your EDP account, you will receive Matching Contribution Credits equal to the sum of-
 - 100% of the first 4% of the sum of the Eligible Base Salary and short-term incentive that you defer; and
 - 50% of the next 2% of the sum of the Eligible Base Salary and short-term incentive that you defer.

However, if you are no longer an active participant in the Plan when your short-term incentive is payable, you generally cannot defer your short-term incentive and, as a result, will not be eligible to receive Matching Contribution Credits with respect to your short-term incentive.

EXAMPLE. You have \$50,000 in Eligible Base Salary and earn a \$100,000 short-term incentive in 2006. You defer 100% of your Eligible Base Salary and 75% of your short-term incentive into your EDP account. For the year, you will have \$132,500 in total contributions to your EDP account, calculated as follows: *Personal Deferral Credits:* \$125,000 (100% of \$50,000 plus 75% of \$100,000); and *Matching Contribution Credits:* \$7,500 (Because you have deferred at least 6% of your total Eligible Base Salary plus short-term incentive into your EDP account, your Matching Contribution Credits equal 5% of \$150,000, or \$7,500.)

Retirement Contribution Credits

Participants who were eligible to receive Retirement Contribution Credits under the IDP with respect to base salary and incentives earned in 2004 will receive those credits under the EDP in the early part of 2005. No Retirement Contribution Credits will be made with respect to base salary and incentives earned after 2004.

INVESTING YOUR ACCOUNT

Investment Options

You will be able to invest your EDP account as long as you are either an active or an inactive participant in the Plan. The investment options available under the Plan mirror those available under the Verizon Savings Plan for Management Employees and are subject to any restrictions imposed by the Verizon Savings Plan for Management Employees. For example, the restriction in the Verizon Savings Plan for Management Employees that you cannot buy shares under the Company stock fund within seven days after you sell shares in that fund applies under the Verizon Shares Fund in the EDP as well. In addition, you can invest your EDP account in a “Moody’s” investment fund that provides a return that mirrors the yield on certain long-term, high-grade corporate bonds.

Allocating Your Account Balance Among the Investment Options

When you first become a participant in the Plan, your initial EDP account balance (if you have one as discussed under “Your Beginning Balance” on page 5) will be allocated in the same manner these credits were allocated in the IDP or the Directors’ Plan. Thereafter, you may elect (or change an existing election) at any time to allocate all or any part of your existing or new Personal Deferral Credits to any of the investment options available under the Plan, except that, again as noted above and under “Your Beginning Balance” on page 5, special rules apply with respect to certain restricted amounts in your EDP account. If, upon becoming an active participant, you do not make an election with respect to your Personal Deferral Credits, those credits will be invested in the “Moody’s” investment fund until you make a valid election.

Your Matching Contribution Credits will all be allocated to the Verizon Shares Fund, an investment option that mirrors the return on the Company’s common stock. You can transfer your Matching Contribution Credits to any other investment fund only in accordance with the “diversification” transfer rules for matching contributions under the Verizon Savings Plan for Management Employees. In general, if you have at least one year of service with

Verizon, these diversification transfer rules permit you to transfer up to 50% of your Matching Contribution Credits out of the Verizon Shares Fund beginning at age 50 and up to 100% of your Matching Contribution Credits out of the Verizon Shares Fund beginning at age 55. For more information about these diversification transfer rules, please consult the summary materials provided for the Verizon Savings Plan for Management Employees.

Exchange Restrictions on Four Funds

The EDP restricts exchanges (transfers) into the investment options that mirror the four funds listed below in order to encourage longer-term investing and discourage excessive short-term trading:

• Active International Equity Fund

• Passive International Equity Index Fund

• Fidelity REIT Collective Pool

• Active U.S. Small Capitalization Fund

Participants who make exchanges (transfers) out of any of these four investment options will not be able to exchange back into the same option for seven calendar days. You may continue to exchange out of these options at any time, but you must wait seven calendar days before exchanging back into that same investment option.

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D ISTRIBUTIONS FROM THE P LAN

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Each time you elect to defer either Eligible Base Salary, incentive awards or directors’ fees into the EDP, you also need to indicate how and when you would like to receive your benefit - this is called class year accounting. You may elect one of the following distribution forms with respect to each class year of deferrals:

• One lump sum payment; or

• Annual installments (for between 2 and 20 years).

You can elect to receive your benefit at separation from service or at a specific date. (In the case of installments, this is the date when the first installment is paid.) However, if you elect to receive a distribution based on a specific date, you may not elect a distribution date that is earlier than 2 years following the year the full deferral was

credited to your account.

If you elect to receive a distribution based on a specific date, you can make a subsequent election to change an existing election with respect to a class year of deferrals provided that (1) you make the election change at least 12 months prior to the original distribution date, (2) you delay the date you would have otherwise received your distributions by at least 5 years, and (3) under the terms of the new election, you will not receive your distribution sooner or over a shorter period of time.

Consequently, you cannot make a subsequent election that results in your receiving your distribution sooner. In addition, you cannot change from installment payments to a lump sum and you cannot change from 20 annual installments to 5 annual installments. Lastly, if you have elected to receive a distribution as of a specific date, you cannot change that election to receive payment at separation from service, as this may accelerate your distribution. Please keep these rules in mind when you are making your initial elections.

Once you are in distribution status for a particular class year of deferrals, you can no longer submit another distribution election to further defer receiving the distribution of that class year of deferrals.

EXAMPLE. You have elected to receive your Excess Base Salary deferred in 2005 in two annual installments beginning on January 1, 2008. On December 1, 2007, you submit a new election to receive your Excess Base Salary deferred in 2005 in a lump-sum on January 1, 2013. Because you did not submit this new election within 12 months of when your payment was scheduled to begin, your new election is **invalid**, and you will receive your first installment in January 2008. You will receive your second installment in January 2009 because you can not change your distribution election once your benefit is in pay status.

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If you attempt to modify your election and all or any part of your new election is invalid, any valid election in effect immediately before you submitted the modification will continue to be effective. If there is no such valid election in effect, the default rules discussed under “Default Form and Timing of Payments” beginning on page 11 will apply.

If you elect to commence payments when your employment ends and your employment ends during the first 12 months after you submit your election, you will receive your payments at the end of the 12 month period required in order for your election to be valid. All vested Company Contributions will be distributed in a lump sum payment after you separate from service (or six months after you separate from service if you are a “key” employee of the Company, as discussed under “Special Rules” below).

D EFAULT F ORM AND T IMING OF P AYMENTS

If you do not have a valid election to receive payments of all or any part of your vested EDP account, you will receive payments of your EDP account (or the part of your EDP account for which no valid election has been made) in a lump sum as soon as administratively practicable after the month in which you separate from service with the Company.

T IMING OF P AYMENTS

You can elect to begin receiving payments of your Personal Deferrals -

• on any specific date that is 2 years following the year that the Personal Deferral was credited to your account;

or

• at your separation from service with the Company (including its affiliates).

All vested Matching Contributions and any other Company Contributions will be distributed to you in a lump sum payment as soon as administratively practicable following your separation from service.

In addition, there are some special rules that apply to the timing of payments for “key” employees of the Company, which are discussed below under “Special Rules”.

FORM OF PAYMENTS

Subject to certain limitations discussed below under “Special Rules”, your vested Plan benefit can be paid in-

• a single sum; or

• annual installments over a period of two to twenty years.

Distributions from the EDP will be made to your Fidelity brokerage account unless other arrangements are made at least 2 weeks prior to the valuation date of the distribution.

SPECIAL RULES

Twenty-Year Limit on Benefit Payments

Your vested Plan benefits must be fully paid within 20 years of when your employment with Verizon (and its affiliates) ends. This could impact your benefit payments in the following ways-

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VERIZON EXECUTIVE DEFERRAL PLAN

• if you elect to receive all or part of your Plan benefit in a single sum on a specific date and the date you elect is more than 20 years from the date your employment with Verizon ends, you will be deemed to have elected to receive your lump sum 20 years from the date your employment ends;

• if you elect to receive all or part of your Plan benefit in annual installments and, upon payment commencement, your annual installments would last more than 20 years from the date your employment with Verizon ends, you will be deemed to have elected the number of installments equal to the maximum number of installments between your payment commencement date and the date that is 20 years from the date your employment ended.

Special Rule for Key Employees

Employees who, at the time of distribution, are “key” employees of Verizon cannot receive distributions from the EDP on account of their separation from service until at least six months after their separation from service from Verizon and its affiliates. (Distributions scheduled to begin on a fixed date are not affected by this rule.) In general, “key” employees include the top 50 highest paid corporate officers of the Company. The Plan administrator reserves the right to determine who the “key” employees of the Company are.

Special Rules that Apply at Disability

If you become disabled (as defined in the Plan) before your employment with Verizon ends, you will receive your Plan benefit according to the terms of any valid election made in accordance with the general terms of the Plan then in effect or under the default rules for form and timing of payments discussed beginning on page 11. However, in no event will you receive any installment payments before the first business day of the first calendar quarter that begins after the date of your disability.

If you become disabled after your employment with Verizon ends, you may only change your election regarding the form and timing of your Plan payments in accordance with the otherwise applicable terms of the Plan.

Special Rules that Apply at Death

At time of death, your beneficiary will receive a lump sum payout of any unpaid portion of your account as soon as administratively practicable following your death.

Your beneficiary or beneficiaries will not be permitted to name their own beneficiaries or to change the form or timing of the benefit payments that they will receive.

Hardship Payments

You may at any time request payment of all or part of your Personal Deferral Credits if you can demonstrate to the Plan’s administrator that you have incurred unusual, extraordinary expenses or hardship caused by events beyond your control, such as an accident or illness. The maximum amount that you can withdraw under these circumstances is the amount necessary to relieve the hardship or financial emergency on which the request is based.

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VERIZON EXECUTIVE DEFERRAL PLAN

VESTING AND OTHER ISSUES

VESTING

“Vesting” refers to your right to the balance in all or part of your EDP account.

Your Employee Balance

You are always 100% vested in your Personal Deferral Credits, unless you and the Company have a written agreement providing that part of your Personal Deferral Credits will vest on a different schedule.

Your Employer Balance

You will be fully vested in your Matching Contribution upon the *earliest* to occur of the following-

• your account in the Verizon Savings Plan for Management Employees is fully vested, which usually occurs after three years of service with Verizon;

• your employment with the Company is involuntarily terminated without cause, and you execute a release in a form acceptable to the Plan's administrator or the Plan's administrator otherwise determines that all or a portion of your Matching Contribution Credits should be vested;

• you become disabled or die while employed with Verizon; or

• there is a change in control of Verizon.

You will vest in any employer contributions transferred to the EDP under the terms of the plan from which those amounts were transferred. In addition, you will vest in any Retirement Contribution Credits received with respect to 2004 salary and bonuses under the vesting provisions of the IDP applicable to Retirement Contribution Credits. Note if you are retirement eligible or become retirement eligible under the terms of the Verizon Management Pension Plan all Retirement Contribution Credits will be fully vested on such date.

FORFEITURE

You can never forfeit your Personal Deferral Credits or the vested portion of your Matching Contribution Credits. However, if you resign from Verizon or if you are terminated for cause, you will forfeit any unvested account balance.

In addition, the IDP rules with respect to forfeitures for violations of non-competition and non-solicit covenants continue to apply to unvested Retirement Contribution Credits transferred from the IDP and to Retirement Contribution Credits provided under the EDP with respect to salary and incentives earned in 2004.

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VERIZON EXECUTIVE DEFERRAL PLAN

MISCELLANEOUS MATTERS

PLAN ADMINISTRATION

The Plan's administrator is the most senior Human Resources officer of the Company, which will generally be the Executive Vice President-Human Resources. However, if you are an "insider" for purposes of certain securities laws, the Plan's administrator is the Human Resources Committee of the Company's Board of Directors. The Plan's administrator has full discretionary authority and responsibility to administer and interpret the Plan, and has the discretion to charge participants for reasonable Plan administration expenses. All decisions of the Plan's administrator are final and controlling for purposes of the Plan.

A MENDMENT AND T ERMINATION

The Company intends to operate the Plan indefinitely. However, the Company has the right to amend or terminate the Plan at any time as long as (except with respect to certain changes in the law) no amendment or termination adversely affects the present dollar value of the vested balance in your EDP account at the time the amendment is made or the Plan is terminated. In addition, for five years following a change in control of Verizon, no amendment may adversely affect your rights under the Plan other than your right to future Matching Contribution Credits.

E FFECT ON O THER B ENEFIT P LANS

By participating in the Plan, you agree that the Plan will provide all of your Company-sponsored non-qualified deferred compensation benefits beginning January 1, 2005. You will no longer be eligible to make personal contributions or receive company contributions under the Verizon Income Deferral Plan or the Directors' Plan.

However, amounts you deferred into the IDP or Directors' Plan that were vested on or before December 31, 2004, and were not transferred to the EDP will remain in the IDP or Directors' Plan and subject to the applicable provisions of those plans as they may be amended from time to time. Amounts you deferred into the IDP or Directors' Plan that were *not* vested on or before December 31, 2004, and were transferred to the EDP as of January 1, 2005, will be subject to the terms of the EDP and *not* subject to the terms of the IDP or Directors' Plan after December 31, 2004.

H YPOTHETICAL N ATURE OF P LAN A CCOUNTS AND I NVESTMENTS

Your EDP account is hypothetical in nature. That is, your Employee Balance and your Employer Balance are maintained for bookkeeping purposes only-there are no actual funds or assets in any of these accounts.

Similarly, the investments under the Plan are only hypothetical in nature. You will instruct the Plan's administrator as to how you would like your EDP account invested. However, because your EDP account is only hypothetical, the Plan's administrator will not necessarily make any actual investments in accordance with your instructions. Nonetheless, the Plan's administrator will track your investment selections and will credit your EDP account with investment gains (or losses) based on the gains (or losses) on the investments you choose.

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V ERIZON E XECUTIVE D EFERRAL P LAN

P LAN A SSETS N OT H ELD IN T RUST

Unlike the Verizon Savings Plan for Management Employees and the Verizon Management Pension Plan, the

	7,261	3,460	4,591	545		
Per common share - basic	2.67	2.62	1.26	1.68		
	.20					
Per common share - diluted	2.65	2.59	1.25	1.67		
	.20					
Net income	7,397	7,831	3,077	4,079		
	389					
Net income available to common shareowners	7,397	7,831	3,077	4,079		
	389					
Per common share - basic	2.67	2.83	1.12	1.49		
	.14					
Per common share - diluted	2.65	2.79	1.12	1.49		
	.14					
Cash dividends declared per common share	1.62	1.54	1.54	1.54		
	1.54					

Financial Position

Total assets	\$ 168,130	\$ 165,958	\$ 165,968	\$		
167,468	\$ 170,795					
Long-term debt	31,869	35,674	39,413			
	44,003	44,873				
Employee benefit obligations	18,819	17,941	16,754			
	15,392	11,895				
Minority interest	26,754	25,053	24,348			
	24,057	21,915				
Shareowners' investment	39,680	37,560	33,466			
	32,616	32,539				

• Significant events affecting our historical earnings trends in 2003 through 2005 are described in Management's Discussion and Analysis of Results of Operations and Financial Condition.

• 2002 data includes gains on investments and sales of businesses and other special and/or non-recurring items.

• 2001 data includes losses on investments, severance benefits charges, and other special and/or non-recurring items.

Management's Discussion and Analysis of Results of Operations and Financial Condition

Overview

Verizon Communications Inc. (Verizon) is one of the world's leading providers of communications services. Verizon's domestic wireline telecommunications business provides local telephone services, including broadband, in 28 states and Washington, D.C. and nationwide long-distance and other communications products and services. Verizon's domestic wireless business, operating as Verizon Wireless, provides wireless voice and data products and services across the United States using one of the most extensive wireless networks. Information Services operates directory publishing businesses and provides electronic commerce services. Verizon's International segment includes wireline and wireless communications operations and investments in the Americas and Europe. In connection with the closing of the merger with MCI, Inc. (MCI), which occurred on January 6, 2006, Verizon now owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks which includes over 270,000 domestic and 360,000 international route miles of fiber optic cable and provides access to over 140 countries worldwide. Operating as Verizon Business, we are now better able to provide next-generation IP network services to medium and large businesses and government customers. Stressing diversity and commitment to the communities in which we operate, Verizon has a highly diverse workforce of 250,000 employees, including Verizon Business.

The sections that follow provide information about the important aspects of our operations and investments, both at the consolidated and segment levels, and include discussions of our results of operations, financial position and sources and uses of cash. In addition, we have highlighted key trends and uncertainties to the extent practicable. The content and organization of the financial and non-financial data presented in these sections are consistent with information used by our chief operating decision makers for, among other purposes, evaluating performance and allocating resources. We also monitor several key economic indicators as well as the state of the economy in general, primarily in the United States where the majority of our operations are located, in evaluating our operating results and analyzing and understanding business trends. While most key economic indicators, including gross domestic product, impact our operations to some degree, we have noted higher correlations to housing starts, non-farm employment, personal consumption expenditures and capital spending, as well as more general economic indicators such as inflation and unemployment rates.

Our results of operations, financial position and sources and uses of cash in the current and future periods reflect Verizon management's focus on the following four key areas:

- **Revenue Growth** - Our emphasis is on revenue transformation, devoting more resources to higher growth markets such as wireless, wireline broadband connections, including digital subscriber lines (DSL) and fiber optics to the home (Verizon's FiOS data product), long distance and other data services as well as expanded services to business markets, rather than to traditional wireline voice services, where we have been experiencing access line losses. In 2005, revenues from these growth areas increased by 15% compared to 2004 and represent 58% of our total revenues, up from 53% of total revenues in 2004 and 47% in 2003. Verizon reported consolidated revenue growth of 5.4% in 2005 compared to 2004, led by 16.8% higher revenue at Domestic Wireless and 10.5% total data revenue growth at Domestic Telecom. Verizon added 7,521,000 wireless customers, 1,659,000 broadband connections and 992,000 long distance lines. Excluding the revenues of Verizon's Hawaii wireline and directory operations, which were sold in 2005, consolidated revenue growth would have been 6.0% in 2005 compared to 2004.

- **Operational Efficiency** - While focusing resources on growth markets, we are continually challenging our management team to lower expenses, particularly through technology-assisted productivity improvements including self-service initiatives. The effect of these and other efforts, such as the 2003 labor agreements and voluntary separation plans, real estate consolidations and call center routing improvements, has been to significantly change the company's cost structure and maintain stable operating income margins. Real estate consolidations include our decision to establish Verizon Center for the leadership team. In 2005, Verizon restructured its management retirement benefit plans such that management employees will no longer earn pension benefits or earn service towards the company retiree medical subsidy after June 30, 2006, after receiving an 18-month enhancement of the value of their pension and retiree medical benefits, but will receive higher savings plan

matching contributions. The net effect of these management benefit plan changes is expected to be a reduction in pretax benefit expenses of approximately \$3 billion over 10 years. In addition, Domestic Telecom's salary and benefits expenses have declined in 2005 and 2004 as a result of the 2003 voluntary separation plan. Workforce levels in 2005 and 2004 increased to 217,000 and 209,000, respectively, from 200,000 as of December 31, 2003 driven by wireless and wireline broadband growth markets.

• **Capital Allocation** - Verizon's capital expenditures continue to be directed toward growth markets. High-speed wireless data (Evolution-Data Optimized, or EV-DO) services, replacement of copper access lines with fiber optics to the home, as well as expanded services to business markets are examples of areas of capital expenditures in support of these growth markets. In 2005, Verizon achieved targeted increased capital expenditures of \$15,324 million compared to 2004 capital expenditures of \$13,259 million in support of growth initiatives. Approximately 69% of 2005 capital expenditures related to growth initiatives. In 2006, Verizon management expects capital expenditures to be in the range of \$15.4 billion to \$15.7 billion, excluding capital expenditures associated with MCI. Including MCI, capital expenditures are expected to be \$17.0 billion to \$17.4 billion in 2006. In addition to capital expenditures, Domestic Wireless continues to acquire wireless spectrum in support of expanding data applications and customer base. In 2005, this included participation in the Federal Communications Commission (FCC) Auction 58 and the NextWave Telecom Inc. (NextWave) and Qwest Wireless, LLC acquisitions.

• **Cash Flow Generation** - The financial statements reflect the emphasis of management on not only directing resources to growth markets, but also using cash provided by our operating and investing activities for the repayment of debt in addition to providing a competitive dividend to our shareowners. In 2005, Verizon increased its dividend by 5.2% to \$1.62 per share from \$1.54 per share in 2004. At December 31, 2005, Verizon's total debt was \$39,010 million, a decrease of \$257 million from \$39,267 million at December 31, 2004.

However, Verizon's balance of cash and cash equivalents at December 31, 2005 of \$776 million declined by \$1,514 million from \$2,290 million at December 31, 2004.

Supporting these key focus areas are continuing initiatives to package more effectively and add more value to our products and services. In 2004, Verizon announced a deployment expansion of FiOS in several states in our service territory. As of the end of 2005, we have met our goal of passing three million premises by the end of 2005. We have achieved a penetration rate of 9% in markets where Verizon has been actively marketing for more than six months and 14% in markets where we have been marketing for nine months, and continue to progress toward our goal of reaching 30% penetration in five years. In 2005, Verizon began offering video on the FiOS network in three markets and expects to begin offering video services in markets in New York, Massachusetts and California in the first quarter of 2006. In Keller, Texas, the first market that FiOS TV has been offered, we have achieved a 21% penetration rate in four months. FiOS TV includes a collection of all-digital programming with more than 375 channels, 47 music channels and 20 high-definition television channels. Innovative product bundles include local wireline, long distance, wireless and broadband services for consumer and general business retail customers. These efforts will also help counter the effects of competition and technology substitution that have resulted in access line losses that have contributed to declining Domestic Telecom revenues over the past several years.

Verizon Business will serve medium and large businesses and government customers from related business operations within Domestic Telecom that market communications and information technology and services to large businesses and governments and MCI's global, corporate and government customers group. Beginning in 2006, Verizon will be positioned as a global communications solutions provider. In connection with this merger, Verizon expects to achieve merger synergies with a net present value of approximately \$8 billion; annual synergies over the next three years are estimated to be \$550 million in 2006, \$825 million in 2007 and \$1,100 million in 2008. Integration costs over that same three year period are estimated to be \$400 million in 2006, \$325 million in 2007 and \$275 million in 2008 and integration capital expenditures are estimated to be between \$1.6 billion and

\$1.9 billion, of which \$550 million is expected to be spent in 2006. Examples of these synergies include moving more voice and data traffic, such as long-haul long distance traffic, onto Verizon's networks rather than paying third party access providers and duplicate work force reductions.

At Domestic Wireless, we will continue to execute on the fundamentals of our network superiority and value proposition to deliver growth for the business while at the same time provide new and innovative products and services for our customers. We are continuing to expand the areas where we are offering BroadbandAccess, our EV-DO service. During 2005, Domestic Wireless expanded its broadband network to 180 major metropolitan areas, covering over 150 million people across the United States. We have achieved our goal of reaching approximately one-half of the U.S. population by the end of 2005. During 2005, we launched V CAST, our consumer broadband wireless service offering, which provides customers with unlimited access to a variety of video and gaming content on EV-DO handsets. In the first year of V CAST service, customers received 11.8 million downloads. Beginning in 2006, Domestic Wireless launched V CAST Music, a comprehensive mobile music service in which customers can download music over the air directly to their wireless phones and to their personal computers.

In December 2005, Verizon announced that it is exploring divesting Information Services through a spin-off, sale or other strategic transaction. However, since this process is still ongoing, Information Services' results of operations, financial position and cash flows remain in Verizon's continuing operations.

Consolidated Results of Operations

In this section, we discuss our overall results of operations and highlight special and non-recurring items. In the following section, we review the performance of our four reportable segments. We exclude the effects of the special and non-recurring items from the segments' results of operations since management does not consider them in assessing segment performance, due primarily to their non-recurring and/or non-operational nature. We believe that this presentation will assist readers in better understanding our results of operations and trends from period to period. This section on consolidated results of operations carries forward the segment results, which exclude the special and non-recurring items, and highlights and describes those items separately to ensure consistency of presentation in this section and the "Segment Results of Operations" section.

The special and non-recurring items include operating results through the sale date of our wireline and directory businesses in Hawaii which operated approximately 700,000 switched access lines and were sold in the second quarter of 2005. These operating results are not in segment results of operations to enhance comparability. Segment results also do not include discontinued operations in segment income. See "Other Consolidated Results - Discontinued Operations" for a discussion of these results of operations. In addition, consolidated operating results include several other events and transactions that are highlighted because of their non-recurring and/or non-operational nature. See "Special Items" for additional discussion of these items.

Consolidated Revenues

(dollars in millions)

Years Ended December 31,	2005	2004	% Change	2004
	2003	% Change		
Domestic Telecom	\$ 37,616	\$ 38,021	(1.1)%	\$ 38,021
	\$ 39,055	(2.6)%		
Domestic Wireless	\$ 32,301	27,662	16.8	27,662

	22,489		23.0						
Information Services	3,452		3,549	(2.7	)	3,549			
	3,763		(5.7)					
International	2,193		2,014	8.9		2,014			
	1,949		3.3						
Corporate & Other	(652	)	(558	)	16.8	(558)		
	(402	)	38.8						
Revenues of Hawaii operations sold	202		595	(66.1	)	595			
	614		(3.1)					
Consolidated Revenues	\$ 75,112		\$ 71,283	5.4		\$ 71,283			
	\$ 67,468		5.7						

2005 Compared to 2004

Consolidated revenues in 2005 were higher by \$3,829 million, or 5.4% compared to 2004 revenues. This increase was primarily the result of significantly higher revenues at Domestic Wireless and higher International revenues, partially offset by lower revenues at Domestic Telecom and the sale of Hawaii operations in the second quarter of 2005.

Domestic Wireless's revenues increased by \$4,639 million, or 16.8% in 2005 compared to 2004 due to a 7.5 million, or 17.2% increase in customers to 51.3 million as of December 31, 2005 and higher equipment and other revenue, partially offset by a decrease in average revenue per customer per month. Increased equipment and other revenues was principally the result of an increase in wireless devices sold together with an increase in revenue per unit sold. Average revenue per customer per month decreased 1.5% to \$49.49 in 2005 compared to 2004, primarily due to pricing changes in early 2005, partially offset by a 71.7% increase in data revenue per customer in 2005 compared to 2004, driven by increased use of our messaging and other data services. Data revenues were \$2,243 million in 2005 compared to \$1,116 million in 2004. Average minutes of use (MOUs) per customer increased to 665, or 16.1% in 2005 compared to 2004.

Domestic Telecom's revenues in 2005 were lower than 2004 by \$405 million, or 1.1% primarily due to lower revenues from local services, partially offset by higher network access and long distance services revenues. The decline in local service revenues of \$669 million, or 3.7% in 2005 was mainly due to lower demand and usage of our basic local exchange and accompanying services, as reflected by declines in switched access lines in service of 6.7% in 2005, driven by the effects of competition and technology substitution. Our network access revenues increased by \$159 million, or 1.3% in 2005 principally due to increased DSL and carrier special access revenues, partially offset by the impact of decreasing switched MOUs and access lines and mandatory price reductions associated with federal and state price cap filings and other regulatory decisions. We added 1.7 million new broadband connections, for a total of 5.1 million lines in service at December 31, 2005, an increase of 47.6% compared to 3.5 million lines in service at December 31, 2004. Switched MOUs declined by 7.1% in 2005 compared to 2004 reflecting the impact of access line loss and technology substitution. Network access revenues also increased in 2005 as a result of a favorable adjustment associated with a recent regulatory decision. Long distance service revenues increased \$206 million, or 5.0% in 2005 principally as a result of customer growth from our interLATA long distance services. In 2005, we added 1.0 million long distance lines, for a total of 18.4 million long distance lines nationwide, representing a 5.7% increase from December 31, 2004. The introduction of our Freedom service plans continues to stimulate growth in long distance services. As of December 31, 2005, approximately 53% of our local wireline customers have chosen Verizon as their long distance carrier.

Lower revenue of Hawaii operations sold of \$393 million, or 66.1% in 2005 compared to 2004 was the result of the sale during the second quarter of 2005 of our wireline and directory operations in Hawaii.

2004 Compared to 2003

Consolidated revenues in 2004 were higher by \$3,815 million, or 5.7% compared to 2003 revenues. This increase was primarily the result of significantly higher revenues at Domestic Wireless, partially offset by lower revenues at Domestic Telecom.

Domestic Wireless's revenues increased by \$5,173 million, or 23.0% in 2004 compared to 2003 as a result of 6.3 million net customer additions and higher revenue per customer per month, including higher data revenue per customer. Average revenue per customer per month was \$50.22, or 2.8% higher in 2004 compared to 2003, primarily due to a larger number of customers on higher access price plan offerings as well as an increase in data revenues per subscriber. Data revenues were \$1,116 million in 2004 compared to \$449 million in 2003. These increases were partially offset by decreased roaming revenue due to bundled pricing.

Domestic Telecom's revenues in 2004 were lower than 2003 by \$1,034 million, or 2.6% primarily due to lower local and network access services, partially offset by higher long distance revenues. The decline in local service revenues of \$916 million, or 4.8% in 2004 was mainly due to lower demand and usage of our basic local exchange and accompanying services, as reflected by a decline in switched access lines in service of 4.6% in 2004. These revenue declines were mainly driven by the effects of competition, regulatory pricing rules for unbundled network elements (UNEs) and technology substitution. Network access revenues declined by \$486 million, or 3.9% in 2004 compared to 2003 principally due to decreasing MOUs and access lines, as well as mandatory price reductions associated with federal and state price cap filings and other regulatory decisions. Switched MOUs declined in 2004 by 5.7% compared to 2003, reflecting the impact of access line loss and wireless substitution. Domestic Telecom's long distance service revenues increased \$390 million, or 10.4% in 2004 compared to 2003, principally as a result of customer growth from our interLATA long distance services. In 2004, we added 2.3 million long distance lines, for a total of 17.7 million long distance lines nationwide, representing a 15.5% increase from December 31, 2003.

Consolidated Operating Expenses

(dollars in millions)

Years Ended December 31,	2005	2004	% Change	2004
	2003	% Change		
Cost of services and sales	\$ 25,469	\$ 23,168	9.9 %	\$ 23,168
	\$ 21,701	6.8 %		
Selling, general and administrative expense	21,312	21,088	1.1	21,088
	24,894	(15.3)		
Depreciation and amortization expense	14,047	13,910	1.0	13,910
	13,607	2.2		
Sales of businesses, net	(530)	-	nm	-
	(141)	(100.0)		
Consolidated Operating Expenses	\$ 60,298	\$ 58,166	3.7	\$ 58,166
	\$ 60,061	(3.2)		

nm - Not meaningful

2005 Compared to 2004

Cost of Services and Sales

Cost of services and sales increased by \$2,301 million, or 9.9% in 2005 compared to 2004. This increase was principally due to increases in pension and other postretirement benefit costs, higher direct wireless network costs, increases in wireless equipment costs and higher costs associated with our wireline growth businesses.

The overall impact of pension and other postretirement benefit plan assumption changes, combined with lower asset returns over the last several years, increased net pension and postretirement benefit expenses by \$399 million in 2005 (primarily in cost of services and sales) compared to 2004. Higher direct wireless network charges resulted from increased MOUs in 2005 compared to 2004, partially offset by lower roaming, local interconnection and long distance rates. Cost of equipment sales was higher in 2005 due primarily to an increase in wireless devices sold together with an increase in cost per unit sold, driven by growth in customer additions and an increase in equipment upgrades in 2005. Higher costs associated with our wireline growth businesses, long distance and broadband connections, included a 2,400, or 1.7% increase in the number of Domestic Telecom employees as of December 31, 2005 compared to December 31, 2004. Costs in 2004 were impacted by lower interconnection expense charged by competitive local exchange carriers (CLECs) and settlements with carriers, including the MCI settlement recorded in 2004.

Selling, General and Administrative Expense

Selling, general and administrative expense was \$224 million, or 1.1% higher in 2005 compared to 2004. This increase was driven by increases in salary, pension and benefits costs, including an increase in the customer care and sales channel work force and sales commissions, partially offset by gains on real estate sales in 2005 and lower bad debt costs. In addition, 2004 included the favorable resolution of a 2003 Telecomunicaciones de Puerto Rico, Inc. (TELPRI) charge. Special and non-recurring items in selling, general and administrative expenses in 2005 were \$315 million compared to special and non-recurring items in 2004 of \$995 million.

Special and non-recurring items in 2005 included a pretax impairment charge of \$125 million pertaining to our leasing operations for airplanes leased to airlines experiencing financial difficulties, a net pretax charge of \$98 million related to the restructuring of the Verizon management retirement benefit plans and a pretax charge of \$59 million associated with employee severance costs and severance-related activities in connection with the voluntary separation program to surplus union-represented employees. Special and non-recurring items recorded in 2004 included \$815 million related to pension settlement losses incurred in connection with the voluntary separation of approximately 21,000 employees in the fourth quarter of 2003 who received lump-sum distributions during 2004. Special charges in 2004 also include an expense credit of \$204 million resulting from the favorable resolution of pre-bankruptcy amounts due from MCI, partially offset by a charge of \$113 million related to operating asset losses.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by \$137 million, or 1.0% in 2005 compared to 2004. This increase was primarily due to the increase in depreciable assets and software, partially offset by lower rates of depreciation on telephone plant.

Sales of Businesses, Net

During the second quarter of 2005, we sold our wireline and directory businesses in Hawaii and recorded a net pretax gain of \$530 million.

2004 Compared to 2003

Cost of Services and Sales

Cost of services and sales increased by \$1,467 million, or 6.8% in 2004 compared to 2003. This increase was

principally due to increased pension and other postretirement benefit costs, primarily at Domestic Telecom, higher direct wireless network charges and customer handset costs at Domestic Wireless as a result of customer base growth and higher costs at Domestic Telecom associated with growth businesses, partially offset by lower workforce levels and other cost reductions at Domestic Telecom.

The overall impact of pension and other postretirement benefit plan assumption changes, combined with lower asset returns over the last several years, increased net pension and postretirement benefit expenses by \$1,166 million in 2004 (primarily in cost of services and sales) compared to 2003. Costs increased in 2004 at Domestic Wireless primarily due to higher direct wireless network charges resulting from increased MOUs in 2004 compared to 2003 and higher cost of equipment sales due to an increase in handsets sold, driven by growth in customer additions and an increase in equipment upgrades in 2004 compared to 2003. Higher customer premises equipment and other costs associated with our growth businesses at Domestic Telecom such as long distance and DSL also contributed to the increase in cost of services and sales. These expense increases were partially offset by the effect of workforce reductions. In 2004, Domestic Telecom benefited from an average of approximately 15,000 fewer employees compared to 2003 levels. This reduction in employees was principally due to a voluntary separation plan, which was completed in November 2003. Costs in 2004 were also impacted by lower interconnection expense charged by CLECs and settlements with carriers, including the MCI settlement recorded in the second quarter of 2004.

Selling, General and Administrative Expense

Selling, general and administrative expense was \$3,806 million, or 15.3% lower in 2004 compared to 2003. This decrease was driven by lower special charges in 2004 by \$5,390 million and lower costs at Domestic Telecom associated with workforce reductions and by lower bad debt expense, partially offset by cost increases at Domestic Wireless and Domestic Telecom. Special charges related to severance, pension and benefits were \$4,607 million lower in 2004 compared to 2003, driven primarily by fourth quarter 2003 charges incurred in connection with the

voluntary separation of approximately 21,000 employees. Lease impairment and other special charges in 2003 were \$496 million, compared to other special credits, net of \$91 million in 2004.

Domestic Wireless's salary and benefits expense increased by \$821 million, including a \$447 million increase in costs incurred in 2004 related to that segment's long-term incentive program, and by an increase in the employee base, primarily in the customer care and sales channels. Also contributing to the increase at Domestic Wireless were higher sales commissions in our direct and indirect channels primarily related to an increase in customer additions and renewals during the year. Cost increases in 2004 at Domestic Telecom included higher net pension and benefit costs, as described in costs of services and sales above, additional other employee benefit costs and higher professional and general costs.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by \$303 million, or 2.2% in 2004 compared to 2003. This increase was primarily due to increased depreciation expense related to the increase in depreciable assets, partially offset by lower rates of depreciation on telephone plant.

Sales of Businesses, Net

In 2003, Information Services recorded a pretax gain of \$141 million primarily related to the sale of its European directory publication operations in Austria, the Czech Republic, Gibraltar, Hungary, Poland and Slovakia.

Pension and Other Postretirement Benefits

For 2005 pension and other postretirement benefit costs, the discount rate assumption was lowered to 5.75% from 6.25% in 2004 consistent with interest rate levels at the end of 2004. The expected rate of return on pension plan

assets remained 8.50% while the expected rate of return on postretirement benefit plan assets was lowered to 7.75% from 8.50% in 2004. The medical cost trend rate was 10% for 2005. For 2004 pension and other postretirement benefit costs, the discount rate assumption was lowered to 6.25% from 6.75% in 2003, consistent with interest rate levels at the end of 2003. The expected rate of return on pension and postretirement benefit plan assets was maintained at 8.50%. The medical cost trend rate assumption was 10% in 2004.

For 2006 pension and other postretirement benefit costs, we evaluated our key employee benefit plan assumptions in response to current conditions in the securities markets and medical and prescription drug cost trends. The discount rate assumption will be maintained at 5.75%, consistent with interest rate levels at the end of 2005. The expected rate of return on pension plan assets will remain 8.50% while the expected rate of return on postretirement benefit plan assets will increase to 8.25% from 7.75% in 2005. The medical cost trend rate will be 10% for 2006.

Verizon's union contracts contain health care cost provisions that limit company payments toward health care costs to specific dollar amounts (known as caps). These caps pertain to both current and future retirees, and have a significant impact on the actuarial valuation of postretirement benefits. These caps have been included in union contracts for several years, but have exceeded the annual health care cost every year until 2003. During the negotiation of new collective bargaining agreements for union contracts covering 79,000 unionized employees in the second half of 2003, the date health care caps would become effective was extended and the dollar amounts of the caps were increased. In the fourth quarter of 2003, we began recording retiree health care costs as if there were no caps, in connection with the ratification of the union contracts. Since the caps are an assumption included in the actuarial determination of Verizon's postretirement obligation, the effect of extending and increasing the caps increased the accumulated postretirement obligation in the fourth quarter of 2003 by \$5,158 million, which increased the annual postretirement benefit expense by \$667 million in 2004.

During 2005, we recorded net pension and postretirement benefit expense of \$1,376 million (\$839 million after-tax, or \$.30 per diluted share), compared to net pension and postretirement benefit expense of \$977 million (\$596 million after-tax, or \$.21 per diluted share) in 2004 and net pension and postretirement benefit income of \$(189) million (\$115 million after-tax, or \$.04 per diluted share) in 2003.

Other Consolidated Results

Equity in Earnings of Unconsolidated Businesses

Equity in earnings of unconsolidated businesses decreased by \$1,002 million in 2005 compared to 2004. The decrease is primarily due to a pretax gain of \$787 million recorded on the sale of our 20.5% interest in TELUS Corporation (TELUS) in the fourth quarter of 2004 and the sale of another investment in 2004, lower equity income resulting from the sale of TELUS and estimated additional pension liabilities at Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), partially offset by higher tax benefits and operational results at our Italian investment Vodafone Omnitel N.V. (Vodafone Omnitel).

Equity in earnings of unconsolidated businesses increased by \$413 million in 2004 compared to 2003. The increase was primarily due to a pretax gain of \$787 million recorded on the sale of our 20.5% interest in TELUS in 2004. This increase was partially offset by tax benefits in 2003 from a reorganization at Vodafone Omnitel and a contribution tax reversal benefiting Vodafone Omnitel. In early 2003, Vodafone Group Plc (Vodafone) completed the reorganization of several of its investments in Vodafone Omnitel that resulted in the consolidation of several holding companies. As a result, the intangible assets held by these holding companies were transferred to Vodafone Omnitel and became tax-deductible for Italian tax purposes. It was determined that this intangible asset was deductible over a three-year period as a customer database. At the time that the reorganization was effective, Vodafone Omnitel began recording the tax benefit associated with the newly created intangible asset in its reported income and Verizon recorded its share of that tax benefit. Separately, in September 2003, the European Court of Justice ruled that an Italian contribution tax on the use of wireless frequencies, established by Italy in 1998, was contrary to European Union law and that the Italian government must refund amounts previously paid by Italian

wireless carriers. During the fourth quarter of 2003, Verizon

recorded its share of the earnings impact of this favorable ruling. In 2003, we also recorded a pretax gain of \$348 million in connection with the sale of our interest in Eurotel Praha, spol. s r.o. (Eurotel Praha), a wireless joint venture in the Czech Republic.

Income From Other Unconsolidated Businesses

Income from other unconsolidated businesses increased by \$17 million in 2005 compared to 2004 and decreased by \$256 million in 2004 compared to 2003. The decrease in 2004 was primarily driven by a \$176 million net gain recorded in 2003 as a result of a payment received in connection with the liquidation of Genuity Inc. (Genuity) and the sales of shares of investments, including Taiwan Cellular Corporation (TCC) and TelecomAsia Corporation Public Company Limited (TelecomAsia) in 2003. This decrease was partially offset by a pretax gain of \$43 million recorded in connection with the sale of our investment in Iowa Telecom preferred stock and TCC share sales in 2004.

Other Income and (Expense), Net

(dollars in millions)			
Years Ended December 31,	2005	2004	
		2003	
Interest income	\$ 120	\$ 116	
		\$ 95	
Foreign exchange gains (losses), net	10	(13	
	)	(11)	
Other, net	107	(81	
	)	(47)	
Total	\$ 237	\$ 22	
		\$ 37	

In 2005, the changes in Other Income and (Expense), Net were primarily due to other, net income in the current year compared to other, net expenses in the prior year. Other, net in 2005 includes a pretax gain on the sale of a small international business, leased asset gains and investment gains. Other, net in 2005 and 2004 include expenses of \$14 million and \$55 million, respectively, related to the early retirement of debt. The changes in Other Income and (Expense), Net in 2004 were primarily due to higher other, net expenses, partially offset by higher interest income. Other, net in 2004 and 2003 includes expenses of \$55 million and \$61 million, respectively, related to the early retirement of debt.

Interest Expense

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	(dollars in millions)			
Years Ended December 31,	2005	2004		
		2003		
Total interest expense	\$ 2,180	\$		
2,384	\$ 2,797			
Capitalized interest costs	352	177		
		144		
Total interest costs on debt balances	\$ 2,532	\$		
2,561	\$ 2,941			
Average debt outstanding	\$ 39,939	\$		
42,555	\$ 49,181			
Effective interest rate	6.3%			
	6.0%			
	6.0%			

In 2005, the decrease in interest costs was primarily due to a reduction in average debt level of \$2,616 million compared to 2004, partially offset by higher average interest rates. Higher capital expenditures contributed to higher capitalized interest costs. In 2004, the decrease in interest costs was primarily due to a reduction in average debt level of \$6,626 million compared to 2003. Higher capital expenditures contributed to higher capitalized interest costs.

Minority Interest

	(dollars in millions)			
Years Ended December 31,	2005	2004		
		2003		
Minority interest	\$ 3,045	\$		
2,409	\$ 1,583			

The increase in minority interest expense in 2005 was primarily due to higher earnings at Domestic Wireless, which has a significant minority interest attributable to Vodafone. The increase in minority interest expense in 2004 was primarily due to higher earnings at Domestic Wireless and higher earnings at TELPRI.

Provision for Income Taxes

	(dollars in millions)			
Years Ended December 31,	2005	2004		

	2003	
Provision for income taxes	\$ 3,210	\$
2,851	\$ 1,213	
Effective income tax rate	30.3%	
	28.2%	
	26.0%	

The effective income tax rate is the provision for income taxes as a percentage of income from continuing operations before the provision for income taxes. Our effective income tax rate in 2005 was higher than 2004 due to taxes on overseas earnings repatriated during the year, lower foreign-related tax benefits and lower favorable deferred tax reconciliation adjustments. As a result of the capital gain realized in the second quarter of 2005 in connection with the sale of our Hawaii businesses, we recorded tax benefits of \$336 million primarily related to prior year investment losses, which were largely offset by a net tax provision of \$206 million related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004. The effective income tax rate in 2004 was favorably impacted by the reversal of a valuation allowance relating to investments, and tax benefits related to deferred tax balance adjustments and expense credits that are not taxable.

Our effective income tax rate in 2004 was higher than 2003 due to lower foreign-related tax benefits, particularly associated with lower equity income from our investment in Vodafone Omnitel and higher state taxes. Vodafone Omnitel income is not taxable until received in the form of dividends. The effective income tax rate in 2004 was favorably impacted from the reversal of a valuation allowance relating to investments, and tax benefits related to deferred tax balance adjustments and expense credits that are not taxable. The effective income tax rate in 2003 was favorably impacted by higher equity income from Vodafone Omnitel, a decrease in state taxes and a benefit related to a deferred tax balance adjustment.

A reconciliation of the statutory federal income tax rate to the effective rate for each period is included in Note 16 to the consolidated financial statements.

Discontinued Operations

Discontinued operations represent the results of operations of Verizon Information Services Canada Inc. for all years presented in the consolidated statements of income and Grupo Iusacell, S.A. de C.V. (Iusacell) prior to the sale of Iusacell in July 2003. During 2004, we announced our decision to sell Verizon Information Services Canada Inc. and, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we have classified the results of operations of Verizon Information Services Canada as discontinued operations. The sale closed in the fourth quarter of 2004 and resulted in a pretax gain of \$1,017 million (\$516 million after-tax, or \$.18 per diluted share). In connection with the decision to sell our interest in Iusacell and a comparison of expected net sale proceeds to the net book value of our investment in Iusacell (including the foreign currency translation balance), we recorded a pretax loss of \$957 million (\$931 million after-tax, or \$.33 per diluted share) in the second quarter of 2003.

Cumulative Effect of Accounting Change

Directory Accounting Change

During 2003, we changed our method for recognizing revenues and expenses in our directory business from the publication-date method to the amortization method. The publication-date method recognizes revenues and direct expenses when directories are published. Under the amortization method, revenues and direct expenses, primarily printing and distribution costs, are recognized over the life of the directory, which is usually 12 months. This accounting change affected the timing of the recognition of revenues and expenses. As required by generally accepted accounting principles, the directory accounting change was recorded effective January 1, 2003. The cumulative effect of the accounting change was a one-time charge of \$2,697 million (\$1,647 million after-tax, or

	2003			
Local services	\$ 17,600	\$		
18,269	\$ 19,185			
Network access services	12,217			
	12,058			
	12,544			
Long distance services	4,347			
	4,141			
	3,751			
Other services	3,452			
	3,553			
	3,575			
	\$ 37,616	\$		
38,021	\$ 39,055			

Local Services

Local service revenues are earned by our telephone operations from the provision of local exchange, local private line, wire maintenance, voice messaging and value-added services. Value-added services are a family of services that expand the utilization of the network, including products such as Caller ID, Call Waiting and Return Call. The provision of local exchange services not only includes retail revenues but also includes local wholesale revenues from UNEs, interconnection revenues from CLECs and wireless carriers, and some data transport revenues.

The decline in local service revenues of \$669 million, or 3.7% in 2005 and \$916 million, or 4.8% in 2004 was mainly due to lower demand and usage of our basic local exchange and accompanying services, as reflected by declines in switched access lines in service of 6.7% in 2005 and 4.6% in 2004. These revenue declines were mainly driven by the effects of competition and technology substitution. Technology substitution affected local service revenue growth in both years, as declining demand for residential access lines resulted in 8.4% fewer lines at December 31, 2005 compared to December 31, 2004 and a reduction in lines of 5.4% during 2004, as more customers substituted wireless, broadband and cable services for traditional landline services. At the same time, basic business access lines declined by 3.5% in 2005 and 3.1% in 2004, primarily reflecting competition and a shift to high-speed, high-volume special access lines.

In the first quarter of 2005, the FCC adopted significant new unbundling rules which eliminated the requirement to unbundle mass market local switching for new orders on a nationwide basis, and provided for a one year transition period for existing UNE switching arrangements. See "Other Factors That May Affect Future Results - Regulatory and Competitive Trends - FCC Regulation" for additional information on FCC rulemakings concerning UNEs. Due to a decision by two major competitors to deemphasize their local market initiatives, wholesale voice connections (commercial local wholesale arrangements, UNE platform and resale lines) declined 1.1 million in 2005, to 5.5 million as of December 31, 2005, which reflected a 16.1% decrease compared to December 31, 2004. In 2004, prior to the adoption of these new rules, wholesale voice connections increased 0.8 million to 6.6 million as of December 31, 2004.

We continue to seek opportunities to retain and win-back customers. Our Freedom service plans offer local services with various combinations of long distance, wireless and Internet access services in a discounted bundle available on one customer bill. Since 2003, we have introduced our Freedom service plans in nearly all of our key markets. As of December 31, 2005, approximately 65% of Verizon's residential customers have purchased local services in combination with either Verizon long distance or Verizon DSL, or both. For small businesses, we have also introduced Verizon Freedom for Business in eleven key markets, covering approximately 86% of business access lines.

Network Access Services

Network access services revenues are earned from end-user customers and long distance and other competing carriers who use our local exchange facilities to provide usage services to their customers. Switched access revenues are derived from fixed and usage-based charges paid by carriers for access to our local network. Special access revenues originate from carriers and end-users that buy dedicated local exchange capacity to support their private networks. End-user access revenues are earned from our customers and from resellers who purchase dial-tone services. Further, network access revenues include our DSL services.

Our network access revenues increased by \$159 million, or 1.3% in 2005, and decreased \$486 million, or 3.9% in 2004. These changes were principally due to increased DSL and carrier special access revenues, partially offset in 2005, and more than offset in 2004, by the impact of decreasing switched MOUs and access lines and mandatory price reductions associated with federal and state price cap filings and other regulatory decisions. We added 1.7 million new broadband connections, for a total of 5.1 million lines in service at December 31, 2005, an increase of 47.6% compared to 3.5 million lines in service at December 31, 2004. Total revenues for high-capacity and data services were \$8,489 million in 2005, an increase of 10.5% compared to 2004 revenues of \$7,679 million, which increased 7.1% compared to 2003. Special access revenue growth reflects continuing demand in the business market for high-capacity, high speed digital services, partially offset by lessening demand for older, low-speed data products and services and ongoing price reductions. Switched access revenues decreased due to declines in switched MOUs of 7.1% in 2005 compared to 2004 and 5.7% in 2004 compared to 2003, reflecting the impact of access line loss and technology substitution, partially offset in 2005 by a favorable adjustment associated with a recent regulatory decision.

The FCC regulates the rates that we charge long distance carriers and end-user customers for interstate access services. See "Other Factors That May Affect Future Results - Regulatory and Competitive Trends - FCC Regulation" for additional information on FCC rulemakings concerning federal access rates, universal service and unbundling of network elements and broadband services.

Long Distance Services

Long distance service revenues include both intraLATA toll services and interLATA long distance voice and data services.

Long distance service revenues increased \$206 million, or 5.0% in 2005 and \$390 million, or 10.4% in 2004, principally as a result of customer growth from our interLATA long distance services. In 2005, we added 1.0 million long distance lines, for a total of 18.4 million long distance lines nationwide, representing a 5.7% increase from December 31, 2004. In 2004, we added 2.3 million long distance lines, representing an

increase of 15.5% from December 31, 2003. The introduction of our Freedom service plans continues to stimulate growth in long distance services. As of December 31, 2005, approximately 53% of our local wireline customers have chosen Verizon as their long distance carrier.

Other Services

Our other services include such services as billing and collections for long distance carriers, public (coin) telephone and customer premises equipment and supply sales. Other services revenues also include services provided by our non-regulated subsidiaries such as data solutions and systems integration businesses, and other services.

Revenues from other services declined by \$101 million, or 2.8% in 2005, and by \$22 million, or 0.6% in 2004. Revenues decreased due to the dissolution of non-strategic businesses, including the termination of a large commercial inventory management contract in 2005, and reduced business volumes related to billing and

collection services and public telephone services, partially offset by increases resulting from higher sales of voice and data customer premises equipment and other services.

Operating Expenses

(dollars in millions)				
Years Ended December 31,	2005	2004		
	2003			
Cost of services and sales	\$ 15,604	\$		
14,830	\$ 14,512			
Selling, general and administrative expense	8,419			
	8,621			
	8,363			
Depreciation and amortization expense	8,801			
	8,910			
	9,107			
	\$ 32,824	\$		
32,361	\$ 31,982			

Cost of Services and Sales

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits, materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expense.

In 2005, our cost of services and sales increased by \$774 million, or 5.2% compared to 2004. Costs in 2005 were impacted by increased pension and other postretirement benefit costs. As of December 31, 2004, Verizon evaluated key employee benefit plan assumptions in response to conditions in the securities markets. The expected rate of return on pension plan assets has been maintained at 8.50%. However, the discount rate assumption has been lowered from 6.25% in 2004 to 5.75% in 2005, consistent with interest rate levels at the end of 2004. Further, there was an increase in the retiree health care cost trend rates. The overall impact of these assumption changes, combined with the impact of lower than expected actual asset returns over the last several years, resulted in net pension and other postretirement benefit expense (primarily in cost of services and sales) of \$1,248 million in 2005, compared to net pension and postretirement benefit expense of \$803 million in 2004. Also contributing to expense increases in cost of services and sales were higher costs associated with our growth businesses, including a 2,400, or 1.7% increase in the number of employees as of December 31, 2005 compared to December 31, 2004. Further, the expense increase was impacted by favorable adjustments to our interconnection expense in 2004, as a result of our ongoing reviews of local interconnection expense charged by CLECs and settlements with carriers, including the MCI settlement recorded in 2004.

In 2004, our cost of services and sales increased by \$318 million, or 2.2% compared to 2003. Costs in 2004 were also impacted by increased pension and other postretirement benefit costs. As of December 31, 2003, Verizon evaluated key employee benefit plan assumptions in response to conditions in the securities markets and the result of extending and increasing limits (caps) on company payments toward retiree health care costs in connection with the union contracts ratified in 2003. The overall impact of these assumption changes, combined with the impact of lower than expected actual asset returns over the last several years, resulted in net pension and other postretirement

benefit expense (primarily in cost of services and sales) of \$803 million in 2004, as compared to pension income, net of other postretirement benefit expense of \$312 million in 2003. Higher customer premises equipment and other costs associated with our growth businesses and annual wage increases also contributed to the increase in cost of services and sales. Further, the comparison of 2004 to 2003 cost of services and sales was affected by the 2003 reduction in operating expenses (primarily cost of services and sales) of approximately \$130 million in 2003 for insurance recoveries related to the terrorist attacks on September 11, 2001.

These 2004 expense increases were partially offset by the effect of workforce reductions of an average of approximately 15,000 employees, principally due to a voluntary separation plan in November 2003. Costs in 2004 were also impacted by lower interconnection expense as a result of our ongoing reviews of local interconnection expense charged by CLECs and settlements with carriers, including the MCI settlement. Expense comparisons were also impacted by 2003 contingency costs incurred in connection with labor negotiations and other costs recorded in 2003.

See "Other Factors That May Affect Future Results - Regulatory and Competitive Trends - Interstate Access Charges and Intercarrier Compensation" for additional information on FCC rulemakings and other court decisions addressing intercarrier compensation for dial-up connections for Internet-bound traffic.

Selling, General and Administrative Expense

Selling, general and administrative expense includes salaries and wages and benefits not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space.

Selling, general and administrative expense in 2005 decreased by \$202 million, or 2.3% compared to 2004. This decrease was attributable to gains on the sale of real estate in 2005, lower property and gross receipts taxes and reduced bad debt costs, partially offset by higher net pension and benefit costs, as described above, and a prior year gain on the sale of two small business units.

In 2004, our selling, general and administrative expense increased by \$258 million, or 3.1% compared to 2003. This increase includes higher net pension and benefit costs and higher professional and general costs, partially offset by the effect of workforce reductions and by lower bad debt expense, reduced property and gross receipts taxes, and a gain on the sale of two small business units.

Depreciation and Amortization Expense

The decreases in depreciation and amortization expense in 2005 of \$109 million, or 1.2%, and \$197 million, or 2.2% in 2004, were mainly driven by lower rates of depreciation, partially offset by higher plant, property and equipment balances and software amortization costs.

Segment Income

					(dollars in millions)
Years Ended December 31,		2005			
		2004	2003		
Segment Income		\$ 1,906			
		\$ 2,652			
		\$ 3,299			

additions and renewals during the year. Costs associated with regulatory fees, primarily the universal service fund, increased by \$179 million in 2005 compared to 2004.

Selling, general and administrative expense increased by \$1,534 million, or 19.0% in 2004 compared to 2003. This increase was due primarily to higher salary and benefits expense and increased sales commissions related to the growth in customer additions and higher costs associated with our long-term incentive program.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by \$274 million, or 6.1% in 2005 compared to 2004 and increased by \$598 million, or 15.4% in 2004 compared to 2003. These increases were primarily due to increased depreciation expense related to the increases in depreciable assets.

Segment Income

		(dollars in millions)			
Years Ended December 31,		2005			
		2004			
		2003			
Segment Income		\$ 2,219			
		\$ 1,645			
		\$ 1,083			

Segment income increased by \$574 million, or 34.9% in 2005 compared to 2004 and increased by \$562 million, or 51.9% in 2004 compared to 2003, primarily as a result of the after-tax impact of operating revenues and operating expenses described above, partially offset by higher minority interest. There were no special items affecting this segment in 2005, 2004 or 2003.

Increases in minority interest in 2005 and 2004 were principally due to the increased income of the wireless joint venture and the significant minority interest attributable to Vodafone.

Information Services

Information Services' multi-platform business comprises yellow pages directories, SuperPages.com, our online directory and search services, and SuperPages On the Go, our directory and information services on wireless telephones. This segment's operations are principally in the United States.

We sold our directory operations in Hawaii in connection with the sale of Verizon's wireline properties in Hawaii discussed earlier under "Consolidated Results of Operations." For comparability purposes, the results of operations shown in the tables below exclude the Hawaii operations that have been sold. In 2004, Verizon sold Verizon Information Services Canada, our directory operations in Canada, to an affiliate of Bain Capital, a private investment firm, for \$1.6 billion. The sale resulted in an after-tax gain of \$516 million. This gain and current and prior years' results of operations for this business unit are classified as discontinued operations in accordance with SFAS No. 144, and are excluded from Information Services segment results.

Operating Revenues

		(dollars in millions)			
Years Ended December 31,		2005			
		2004			
		2003			
Operating Revenues		\$ 3,452			
		\$ 3,549			
		\$ 3,763			

Operating revenues in 2005 decreased \$97 million, or 2.7% compared to 2004, primarily due to reduced domestic print advertising revenue, partially offset by SuperPages.com revenue growth. Verizon's domestic Internet directory service, SuperPages.com, achieved growth of 18% in gross revenues compared with 2004.

Operating revenues in 2004 decreased \$214 million, or 5.7% compared to 2003, primarily due to reduced domestic print advertising revenue and elimination of revenue from the 2003 sale of European operations. SuperPages.com reported a 22% increase in revenue over 2003.

Operating Expenses

		(dollars in millions)			
Years Ended December 31,		2005		2004	
				2003	
Cost of services and sales		\$ 593		\$	
542		\$ 554			
Selling, general and administrative expense		1,107		1,319	
		1,387			
Depreciation and amortization expense		92		87	
		79			
Sales of businesses, net		-		-	
		(141)			
		\$ 1,792		\$	
1,948		\$ 1,879			

Cost of Services and Sales

Cost of services and sales in 2005 increased \$51 million, or 9.4% compared to 2004 and decreased by \$12 million, or 2.2% in 2004 compared to 2003. The 2005 increase was primarily due to increased printing and distribution costs and higher costs associated with SuperPages.com. The decrease in 2004 was primarily due to reduced expenses related to the July 2003 sale of European operations.

Selling, General and Administrative Expense

Selling, general and administrative expenses decreased \$212 million, or 16.1% in 2005 compared to 2004. This decrease was due primarily to cost reductions, as well as reduced bad debt and legal expenses. Selling, general and administrative expenses decreased \$68 million, or 4.9% in 2004 compared to 2003. Lower bad debt expenses and reduced expenses related to the July 2003 sale of European operations were partially offset by higher domestic pension and benefit costs.

Depreciation and Amortization Expense

Depreciation and amortization expense in 2005 increased by \$5 million, or 5.7% compared to 2004 and by \$8 million, or 10.1% in 2004 compared to 2003, primarily due to increased software amortization expense.

Sales of Businesses, Net

In 2003, we recorded a net pretax gain of \$141 million primarily related to the sale of our European directory publication operations in Austria, the Czech Republic, Gibraltar, Hungary, Poland and Slovakia.

Segment Income

					(dollars in millions)				
Years Ended December 31,					2005				
					2004				
					2003				
Segment Income					\$ 1,044				
					\$ 968				
					\$ 1,128				

Segment income in 2005 increased by \$76 million, or 7.9% compared to 2004 and decreased by \$160 million, or 14.2% in 2004 compared to 2003. The increase in 2005 and decrease in 2004 were primarily the result of the after-tax impact of the operating revenues and expenses described above and lower interest expense in 2005 compared to 2004.

Special and non-recurring items of \$(10) million, \$(596) million, \$1,660 million, after-tax, affected the Information Services segment but were excluded from segment income in 2005, 2004 and 2003, respectively. The special and non-recurring items in all years include the results of operations of the Hawaii directory operations. The special and non-recurring items in 2004 and 2003 include the results of operations of Verizon Information Services Canada. The special and non-recurring items in 2004 also included the gain on the sale of Verizon Information Services Canada, partially offset by pension settlement losses for employees who received lump-sum distributions under a prior year voluntary separation plan. Special and non-recurring items in 2003 also included a loss recorded in connection with the cumulative effect of the directory accounting change from the publication-date method of recognizing revenue and expenses to the amortization method, effective January 1, 2003, and severance charges related to a voluntary separation plan.

International

Our International segment includes international wireline and wireless telecommunication operations in the

Americas and Europe. Our consolidated international investments as of December 31, 2005 included Verizon Dominicana, C. por A. (Verizon Dominicana) in the Dominican Republic and TELPRI in Puerto Rico. Either the cost or the equity method is applied to those investments in which we have less than a controlling interest.

On June 13, 2003, we announced our decision to sell our 39.4% consolidated interest in Iusacell and reclassified our investment and the results of operations of Iusacell as discontinued operations. We sold our shares in Iusacell on July 29, 2003. The results of operations for this business unit in 2003 are classified as discontinued operations in accordance with SFAS No. 144, and are excluded from International segment results.

Operating Revenues

		(dollars in millions)			
Years Ended December 31,		2005			
		2004			
		2003			
Operating Revenues		\$ 2,193			
		\$ 2,014			
		\$ 1,949			

Revenues generated by our international businesses increased by \$179 million, or 8.9% in 2005 compared to 2004 and increased by \$65 million, or 3.3% in 2004 compared to 2003. The increase in 2005 was primarily due to favorable foreign exchange rates in the Dominican Republic as well as favorable wireless growth at both TELPRI and Verizon Dominicana, partially offset by a favorable adjustment to carrier access revenues at TELPRI in 2004. The increase in 2004 was primarily due to operational growth at Verizon Dominicana and a 2003 adjustment to carrier access revenues at TELPRI, partially offset by declining foreign exchange rates in the Dominican Republic.

Operating Expenses

		(dollars in millions)			
Years Ended December 31,		2005			
		2004			
		2003			
Cost of services and sales		\$ 707	\$		
626		\$ 574			
Selling, general and administrative expense		675			
		471			
		691			
Depreciation and amortization expense		340			
		324			
		346			
		\$ 1,722	\$		

1,421

\$ 1,611

Cost of Services and Sales

Cost of services and sales increased in 2005 by \$81 million, or 12.9% compared to 2004 and by \$52 million, or 9.1% in 2004 compared to 2003. The increase in 2005 was due primarily to higher variable costs at Verizon Dominicana and at TELPRI as well as the appreciation of the Dominican Republic peso. The increase in 2004 reflected higher variable costs at Verizon Dominicana, partially offset by the decline of the Dominican Republic's foreign exchange rates.

Selling, General and Administrative Expense

Selling, general and administrative expenses increased in 2005 by \$204 million, or 43.3% compared to 2004 and decreased by \$220 million, or 31.8% in 2004 compared to 2003. The increase in 2005 reflects the favorable resolution in 2004 of a 2003 TELPRI charge recorded as a result of an adverse Puerto Rico Circuit Court of Appeals ruling on intra-island long distance access rates, the appreciation of the Dominican Republic peso and higher employee-related costs and commission expenses. The decrease in 2004 was primarily due to a TELPRI charge recorded in 2003 as a result of the Puerto Rico Circuit Court of Appeals ruling as well as the favorable resolution to the charge in 2004, an asset write-off in 2003, and declining foreign exchange rates in the Dominican Republic.

Depreciation and Amortization Expense

Depreciation and amortization expense increased in 2005 by \$16 million, or 4.9% compared to 2004 and decreased \$22 million, or 6.4% in 2004 compared to 2003. The increase in 2005 primarily reflects the appreciation of the Dominican Republic peso. The decrease in 2004 was due primarily to declining foreign exchange rates in the Dominican Republic and the adoption of SFAS No. 143 in 2003, offset in part by increased depreciation related to ongoing network capital expenditures in 2004.

Segment Income

					(dollars in millions)
Years Ended December 31,	2005				
	2004				
	2003				
Segment Income	\$ 1,251				
	\$ 1,225				
	\$ 1,392				

Segment income increased in 2005 by \$26 million, or 2.1% compared to 2004 and decreased by \$167 million, or 12.0% in 2004 compared to 2003. The increase in 2005 reflects an increase in interest income, foreign exchange gains and lower income taxes, largely offset by lower equity in earnings of unconsolidated businesses and Verizon's share (after minority interest) of the after-tax impact of the operating revenues and operating expenses previously described. The decrease in 2004 was primarily the result of the decrease in equity in earnings of unconsolidated businesses and income from other unconsolidated businesses, partially offset by Verizon's share (after minority interest) of the after-tax impact of the operating revenues and operating expenses previously described.

Equity in earnings of unconsolidated businesses decreased in 2005 by \$224 million, or 21.7% compared to 2004 and decreased by \$60 million, or 5.5% in 2004 compared to 2003. The decrease in 2005 primarily resulted from lower equity income due to the sale of our TELUS interest in 2004, estimated additional pension liabilities at CANTV and the gain on the sale of an equity investment in 2004, partially offset by higher tax benefits and operational results at Vodafone Omnitel. The decrease in 2004 was driven primarily from Italian tax benefits in 2003 arising from a reorganization and the 2003 contribution tax reversal that resulted from a favorable European Court of Justice ruling at Vodafone Omnitel, partially offset by favorable foreign currency impacts from the euro on that investment and continued operational growth, as well as a gain on the sale of an equity investment in 2004. Income from other unconsolidated businesses decreased by \$138 million, or 81.7% in 2004 compared to 2003. This decrease reflects lower gains realized from the sale of investments compared to 2003.

Special and non-recurring items of \$(112) million, \$(797) million and \$791 million, after-tax, affected the International segment but were excluded from segment income in 2005, 2004 and 2003, respectively. The special and non-recurring items in 2005 primarily related to tax benefits realized in connection with prior years' investment losses, partially offset by a net tax provision from the repatriation of foreign

earnings. The special and non-recurring items in 2004 were related to the gain on sale of our investment in TELUS and tax benefits realized in connection with prior years' sales of investments, partially offset by pension settlement losses for employees that received lump-sum distributions under a voluntary separation plan. The special and non-recurring items in 2003 include the impairment of our investment in Iusacell, partially offset by a gain on the sale of Eurotel Praha.

Special Items

Discontinued Operations

During 2004, we announced our decision to sell Verizon Information Services Canada to an affiliate of Bain Capital, a global private investment firm, for \$1,540 million (Cdn. \$1,985 million). The sale closed during the fourth quarter of 2004 and resulted in a gain of \$1,017 million (\$516 million after-tax, or \$.18 per diluted share). In accordance with SFAS No. 144, we have classified the results of operations of Verizon Information Services Canada as discontinued operations in the consolidated statements of income in all years.

During 2003, we announced our decision to sell our 39.4% consolidated interest in Iusacell into a tender offer launched by Movil Access, a Mexican company. Verizon tendered its shares shortly after the tender offer commenced, and the tender offer closed on July 29, 2003. In accordance with SFAS No. 144, we have classified the results of operations of Iusacell as discontinued operations in the consolidated statements of income in all years until the sale. In connection with a comparison of expected net sale proceeds to net book value of our investment in Iusacell (including the foreign currency translation balance), we recorded a pretax loss of \$957 million (\$931 million after-tax, or \$.33 per diluted share).

Sales of Businesses and Investments, Net

Sales of Businesses, Net

During 2005, we sold our wireline and directory businesses in Hawaii, including Verizon Hawaii Inc. which operated approximately 700,000 switched access lines, as well as the services and assets of Verizon Long Distance, Verizon Online, Verizon Information Services and Verizon Select Services Inc. in Hawaii, to an affiliate of The Carlyle Group for \$1,326 million in cash proceeds. In connection with this sale, we recorded a net pretax gain of \$530 million (\$336 million after-tax, or \$.12 per diluted share).

Sales of Investments, Net

During 2004, we recorded a pretax gain of \$787 million (\$565 million after-tax, or \$.20 per diluted share) on the sale of our 20.5% interest in TELUS in an underwritten public offering in the U.S. and Canada. In connection with this sale transaction, Verizon recorded a contribution of \$100 million to Verizon Foundation to fund its charitable activities and increase its self-sufficiency. Consequently, we recorded a net gain of \$500 million after taxes, or \$.18 per diluted share related to this transaction and the accrual of the Verizon Foundation contribution.

Also during 2004, we sold all of our investment in Iowa Telecom preferred stock, which resulted in a pretax gain of \$43 million (\$43 million after-tax, or \$.02 per diluted share). This preferred stock was received in 2000 in connection with the sale of access lines in Iowa.

During 2003, we recorded a pretax gain of \$348 million on the sale of our interest in Eurotel Praha. Also during 2003, we recorded a net pretax gain of \$176 million as a result of a payment received in connection with the liquidation of Genuity. In connection with these sales transactions, Verizon recorded contributions of \$150 million for each of the transactions to Verizon Foundation to fund its charitable activities and increase its self-sufficiency. Consequently, we recorded a net gain of \$44 million after taxes, or \$.02 per diluted share related to these transactions and the accrual of the Verizon Foundation contributions.

Tax Matters

During 2005, we recorded a tax benefit of \$336 million (\$.12 per diluted share) in connection with capital gains and prior year investment losses. As a result of the capital gain realized in 2005 in connection with the sale of our Hawaii businesses, we recorded a tax benefit of \$242 million (\$.09 per diluted share) related to prior year investment losses. The investment losses pertain to Iusacell, CTI Holdings, S.A. (CTI) and TelecomAsia.

Also during 2005, we recorded a net tax provision of \$206 million (\$.07 per diluted share) related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004, which provides for a favorable federal income tax rate in connection with the repatriation of foreign earnings, provided the criteria described in the law is met. Two of Verizon's foreign investments repatriated earnings resulting in income taxes of \$332 million, partially offset by a tax benefit of \$126 million.

As a result of the capital gain realized in 2004 in connection with the sale of Verizon Information Services Canada, we recorded tax benefits of \$234 million (\$.08 per diluted share) in the fourth quarter of 2004 pertaining to prior year investment impairments. The investment impairments primarily related to debt and equity investments in CTI, Cable & Wireless plc and NTL Incorporated.

Facility and Employee-Related Items

During 2005, we recorded a net pretax gain of \$18 million (\$8 million after-tax, or less than \$.01 per diluted share) in connection with our planned relocation of several functions to Verizon Center, including a pretax gain of \$120 million (\$72 million after-tax, or \$.03 per diluted share) related to the sale of a New York City office building, partially offset by a pretax charge of \$102 million (\$64 million after-tax, or \$.02 per diluted share) primarily associated with relocation-related employee severance costs and related activities. Additional relocation costs are anticipated in 2006.

During 2005, we recorded a net pretax charge of \$98 million (\$59 million after-tax, or \$.02 per diluted share) related to the restructuring of the Verizon management retirement benefit plans. This pretax charge was recorded in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and includes the unamortized cost of prior pension enhancements of \$441 million

offset partially by a pretax curtailment gain of \$343 million related to retiree medical benefits. In connection with this restructuring, management employees will no longer earn pension benefits or earn service towards the company retiree medical subsidy after June 30, 2006, after receiving an 18-month enhancement of the value of their pension and retiree medical subsidy, but will receive a higher savings plan matching contribution.

In addition, during 2005 we recorded a charge of \$59 million (\$36 million after-tax, or \$.01 per diluted share) associated with employee severance costs and severance-related activities in connection with the voluntary separation program for surplus union-represented employees.

During 2004, we recorded pretax pension settlement losses of \$815 million (\$499 million after-tax, or \$.18 per diluted share) related to employees that received lump-sum distributions during 2004 in connection with the voluntary separation plan under which more than 21,000 employees accepted the separation offer in the fourth quarter of 2003. These charges were recorded in accordance with SFAS No. 88, which requires that settlement losses be recorded once prescribed payment thresholds have been reached.

Total pension, benefit and other costs related to severance activities were \$5,524 million (\$3,399 million after-tax, or \$1.20 per diluted share) in 2003, primarily in connection with the voluntary separation of more than 25,000 employees, as follows:

• In connection with the voluntary separation of more than 21,000 employees during the fourth quarter of 2003, we recorded a pretax charge of \$4,695 million (\$2,882 million after-tax, or \$1.02 per diluted share). This pretax charge included \$2,716 million recorded in accordance with SFAS No. 88 and SFAS No. 106, for pension and postretirement benefit enhancements and a net curtailment gain for a significant reduction of the expected years of future service resulting from early retirements. In addition, we recorded a pretax charge of \$76 million for pension settlement losses related to lump-sum settlements of some existing pension obligations. The fourth quarter pretax charge also included severance costs of \$1,720 million and costs related to other severance-related activities of \$183 million.

• We also recorded a special charge in 2003 of \$235 million (\$150 million after-tax, or \$.05 per diluted share) primarily associated with employee severance costs and severance-related activities in connection with the voluntary separation of approximately 4,000 employees. In addition, we recorded pretax pension settlement losses of \$131 million (\$81 million after-tax, or \$.03 per diluted share) in 2003 related to employees that received lump-sum distributions during the year in connection with previously announced employee separations.

• Further, in 2003 we recorded a special charge of \$463 million (\$286 million after-tax, or \$.10 per diluted share) in connection with enhanced pension benefits granted to employees retiring in the first half of 2003, estimated costs associated with the July 10, 2003 Verizon New York arbitration ruling and pension settlement losses related to lump-sum pay-outs in 2003. On July 10, 2003, an arbitrator ruled that Verizon New York's termination of 2,300 employees in 2002 was not permitted under a union contract; similar cases were pending impacting an additional 1,100 employees. Verizon offered to reinstate all 3,400 impacted employees, and accordingly, recorded a charge in the second quarter of 2003 representing estimated payments to employees and other related company-paid costs.

Other Special Items

During 2005, we recorded pretax charges of \$139 million (\$133 million after-tax, or \$.05 per diluted share) including a pretax impairment charge of \$125 million (\$125 million after-tax, or \$.04 per diluted share) pertaining to our leasing operations for aircraft leases involved in recent airline bankruptcy proceedings and a pretax charge of \$14 million (\$8 million after-tax, or less than \$.01 per diluted share) in connection with the early retirement of debt.

In 2004, we recorded an expense credit of \$204 million (\$123 million after-tax, or \$.04 per diluted share) resulting from the favorable resolution of pre-bankruptcy amounts due from MCI. Previously reached settlement agreements became fully effective when MCI emerged from bankruptcy proceedings in the second quarter of 2004.

Also during 2004, we recorded a charge of \$113 million (\$87 million after-tax, or \$.03 per diluted share) related to operating asset losses pertaining to our international long distance and data network. In addition, we recorded pretax charges of \$55 million (\$34 million after-tax, or \$.01 per diluted share) in connection with the early retirement of debt.

During 2003, we recorded other special pretax charges of \$557 million (\$419 million after-tax, or \$.15 per diluted share). These charges included \$240 million (\$156 million after-tax, or \$.06 per diluted share) primarily in connection with environmental remediation efforts relating to several discontinued businesses, including a former facility that processed nuclear fuel rods in Hicksville, New York (see "Other Factors That May Affect Future Results - Recent Developments - Environmental Matters") and a pretax impairment charge of \$184 million (\$184 million after-tax, or \$.06 per diluted share) pertaining to our leasing operations for airplanes leased to airlines experiencing financial difficulties and for power generating facilities. These 2003 charges also include pretax charges of \$61 million (\$38 million after-tax, or \$.01 per diluted share) related to the early retirement of debt and other pretax charges of \$72 million (\$41 million after-tax, or \$.01 per diluted share).

Consolidated Financial Condition				
(dollars in millions)				
Years Ended December 31,	2005		2004	
			2003	
Cash Flows Provided By (Used In)				
Operating activities	\$ 22,012		\$	
21,820			\$ 22,467	
Investing activities	(18,492	)	(10,343	
	)		(12,236	
)			
Financing activities	(5,034	)	(9,856	
	)		(10,959	
)			
Increase (Decrease) In Cash and Cash Equivalents	\$ (1,514)	\$	
1,621			\$ (728	
)		

We use the net cash generated from our operations to fund network expansion and modernization, repay external financing, pay dividends and invest in new businesses. Additional external financing is utilized when necessary. While our current liabilities typically exceed current assets, our sources of funds, primarily from operations and, to the extent necessary, from readily available external financing arrangements, are sufficient to meet ongoing operating and investing requirements. We expect that capital spending requirements will continue to be financed

primarily through internally generated funds. Additional debt or equity financing may be needed to fund additional development activities or to maintain our capital structure to ensure our financial flexibility.

Cash Flows Provided By Operating Activities

Our primary source of funds continues to be cash generated from operations. In 2005, the increase in cash from operations compared to 2004 was primarily driven by the repatriation of \$2.2 billion of foreign earnings from unconsolidated businesses and lower severance payments in 2005, largely offset by cash income tax payments, including taxes paid in 2005 related to the 2004 sales of Verizon Information Services Canada and TELUS shares, and higher pension fund contributions.

In 2004, the decrease in cash from operations compared to 2003 was primarily driven by an increase in working capital requirements. The increase in working capital requirements was driven by higher severance payments in 2004 compared to higher severance accruals in 2003, primarily related to the fourth quarter 2003 voluntary separation plan. In addition, a higher tax refund was recorded in the 2003 period.

Cash Flows Used In Investing Activities

Capital expenditures continue to be our primary use of capital resources and facilitate the introduction of new products and services, enhance responsiveness to competitive challenges and increase the operating efficiency and productivity of our networks. Including capitalized software, we invested \$8,267 million in our Domestic Telecom business in 2005, compared to \$7,118 million and \$6,820 million in 2004 and 2003, respectively. We also invested \$6,484 million in our Domestic Wireless business in 2005, compared to \$5,633 million and \$4,590 million in 2004 and 2003, respectively. The increase in capital spending of both Domestic Telecom and Domestic Wireless represents our continuing effort to invest in high growth areas including wireless, long distance, broadband and other wireline data initiatives.

In 2006, capital expenditures including capitalized software are expected to be in the range of \$15.4 billion to \$15.7 billion, excluding capital expenditures associated with MCI. Including MCI, capital expenditures are expected to be \$17.0 billion to \$17.4 billion in 2006.

We invested \$4,684 million in acquisitions and investments in businesses during 2005, including \$3,003 million to acquire NextWave Telecom Inc. (NextWave) personal communications services licenses, \$641 million to acquire 63 broadband wireless licenses in connection with FCC auction 58, \$419 million to purchase Qwest Wireless, LLC's spectrum licenses and wireless network assets in several existing and new markets, \$230 million to purchase spectrum from MetroPCS, Inc. and \$297 million for other wireless properties and licenses. In 2004, we invested \$1,196 million in acquisitions and investments in businesses, including \$1,052 million for wireless licenses and businesses, including the NextWave licenses covering the New York metropolitan area, and \$144 million related to Verizon's limited partnership investments in entities that invest in affordable housing projects. In 2003, we invested \$1,162 million in acquisitions and investments in businesses, including \$762 million to acquire 50 wireless licenses and related network assets from Northcoast Communications LLC, \$242 million related to Verizon's limited partnership investments in entities that invest in affordable housing projects and \$157 million for other wireless properties.

In 2005, we received cash proceeds of \$1,326 million in connection with the sale of Verizon's wireline and directory operations in Hawaii. In 2004, we received cash proceeds of \$1,720 million, including \$1,603 million from the sale of Verizon Information Services Canada and \$117 million from the sale of a small business unit. In 2003, we received cash proceeds of \$229 million, from the sale of our European directory publication operations in Austria, the Czech Republic, Gibraltar, Hungary, Poland and Slovakia.

Our short-term investments include principally cash equivalents held in trust accounts for payment of employee

benefits. In 2005, 2004 and 2003, we invested \$1,978 million, \$1,827 million and \$1,887 million, respectively, in short-term investments, primarily to pre-fund active employees' health and welfare benefits. Proceeds from the sales of all short-term investments, principally for the payment of these benefits, were \$1,634 million, \$1,727 million and \$1,767 million in the years 2005, 2004 and 2003, respectively.

Other, net investing activities for 2005 includes a net investment of \$913 million for the purchase of 43.4 million shares of MCI common stock from eight entities affiliated with Carlos Slim Helu, offset by cash proceeds of \$713 million from property sales, including a New York City office building, and \$349 million of repatriated proceeds from the sales of European investments in prior years. Other, net investing activities for 2004 include net cash proceeds of \$1,632 million received in connection with the sale of our 20.5% interest in TELUS and \$650 million in connection with sales of our interests in various other investments, including a partnership venture with Crown Castle International Corp., EuroTel Bratislava, a.s. and Iowa Telecom preferred stock. Other, net investing activities for 2003 include net cash proceeds of \$415 million in

connection with sales of our interests in various investments, primarily TCC and Crown Castle International Corp. and \$195 million in connection with the sale of our interest in Eurotel Praha, representing a portion of the total proceeds of \$525 million.

Under the terms of an investment agreement, Vodafone may require Verizon Wireless to purchase up to an aggregate of \$20 billion worth of Vodafone's interest in Verizon Wireless at designated times at its then fair market value. In the event Vodafone exercises its put rights, we have the right, exercisable at our sole discretion, to purchase up to \$12.5 billion of Vodafone's interest instead of Verizon Wireless for cash or Verizon stock at our option. Vodafone had the right to require the purchase of up to \$10 billion during the 61-day period opening on June 10 and closing on August 9 in 2005, and did not exercise that right. As a result, Vodafone still has the right to require the purchase of up to \$20 billion worth of its interest, not to exceed \$10 billion in any one year, during a 61-day period opening on June 10 and closing on August 9 in 2006 and 2007. Vodafone also may require that Verizon Wireless pay for up to \$7.5 billion of the required repurchase through the assumption or incurrence of debt.

Cash Flows Used In Financing Activities

Cash of \$303 million was used to reduce our total debt during 2005. We repaid \$1,533 million of Domestic Wireless, \$1,183 million of Domestic Telecom, \$996 million of Verizon Global Funding Corp., \$113 million of other corporate and \$93 million of International long-term debt. The Domestic Telecom debt repayment includes the early retirement of \$350 million of long-term debt and \$806 million of other long-term debt at maturity. This decrease was largely offset by the issuance by Verizon Global Funding of long-term debt with a total principal amount of \$1,500 million, resulting in total cash proceeds of \$1,478 million, net of discounts and costs, and an increase in our short-term borrowings of \$2,129 million.

Cash of \$5,467 million was used to reduce our total debt during 2004. We repaid \$2,315 million and \$2,769 million of Domestic Telecom and corporate long-term debt, respectively. The Domestic Telecom debt repayment includes the early retirement of \$1,275 million of long-term debt and \$950 million of other long-term debt at maturity. The corporate debt repayment includes \$1,984 million of zero-coupon convertible notes redeemed by Verizon Global Funding and \$723 million of other corporate long-term debt at maturity. Also, during 2004, we decreased our short-term borrowings by \$783 million and Verizon Global Funding issued \$500 million of long-term debt.

Cash of \$7,436 million was used to reduce our total debt during 2003. We repaid \$5,646 million of Verizon Global Funding, \$2,190 million of Domestic Telecom, \$1,582 million of Domestic Wireless and \$1,239 million of other corporate long-term debt, and reduced our short-term borrowings by \$1,330 million with cash from operations and the issuance of Verizon Global Funding, Domestic Telecom and Domestic Wireless long-term debt. Verizon Global Funding, Domestic Telecom and Domestic Wireless issued long-term debt with principal amounts of

\$1,500 million, \$1,653 million and \$1,525 million, respectively, resulting in total cash proceeds of \$4,591 million, net of discounts, costs and a payment related to a hedge on the interest rate for an anticipated financing.

Our ratio of debt to debt combined with shareowners' equity was 49.6% at December 31, 2005 compared to 51.1% at December 31, 2004.

As of December 31, 2005, we had \$11 million in bank borrowings outstanding. We also had approximately \$6.7 billion of unused bank lines of credit (including a \$6.0 billion three-year committed facility which expires in June 2008, a \$400 million one-year committed facility for TELPRI which expires in February 2006 and various other facilities totaling approximately \$400 million). In addition, our financing subsidiary had shelf registrations for the issuance of up to \$8.5 billion of unsecured debt securities. The debt securities of our telephone and financing subsidiaries continue to be accorded high ratings by primary rating agencies. In February 2005, both Standard & Poor's and Moody's Investors Service (Moody's) indicated that the proposed acquisition of MCI (see "Other Factors That May Affect Future Results - Recent Developments - MCI Merger") may result in downgrades in Verizon's debt ratings. At that time, Moody's placed the short-term and long-term debt of Verizon and its telephone subsidiaries on review for possible downgrade, while simultaneously changing the outlook on the A3-rated Verizon Wireless debt to stable from positive. Standard & Poor's placed the A+ long-term debt rating of Verizon and affiliates (including Verizon Wireless) on credit watch with negative implications. Fitch Ratings also placed the A+ rating of Verizon, along with the ratings of its affiliates, on ratings watch negative as a result of the proposed acquisition of MCI. In December 2005, Moody's downgraded the long-term debt rating of Verizon to A3 from A2. At the same time, the short-term debt ratings of Verizon Global Funding and Verizon Network Funding were changed to Prime-2 from Prime-1. Both outlooks were changed to stable. Moody's also placed the A3-rated long-term debt of Verizon Wireless on review for possible upgrade. These actions resolved the reviews initiated in February 2005. In January 2006, Fitch Ratings affirmed the A+ long-term debt ratings of Verizon and affiliates (including Verizon Wireless), removed them from rating watch negative, and assigned stable rating outlooks. The F1 short-term debt ratings of Verizon Global Funding and Verizon Network Funding were also affirmed. These short-term ratings had not been on rating watch negative. Also in January 2006, Standard & Poor's lowered the long-term ratings of Verizon and subsidiaries (including Verizon Wireless) to A from A+, removed them from credit watch, and assigned a negative outlook. Short-term ratings assigned by Standard & Poor's to Verizon Global Funding and Verizon Network Funding remain at A-1.

We and our consolidated subsidiaries are in compliance with all of our debt covenants.

As in prior years, dividend payments were a significant use of capital resources. We determine the appropriateness of the level of our dividend payments on a periodic basis by considering such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. In 2005, Verizon increased its quarterly dividend by \$.02 per share, or 5.2% to \$.405 per share. In 2004 and 2003, we declared quarterly cash dividends of \$.385 per share.

Common stock has generally been issued to satisfy some of the funding requirements of employee benefit plans. On January 19, 2006, the Board of Directors authorized the repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2008. The Board of Directors also determined that no additional common shares may be purchased under the previous program.

Increase (Decrease) In Cash and Cash Equivalents

Our cash and cash equivalents at December 31, 2005 totaled \$776 million, a \$1,514 million decrease compared to cash and cash equivalents at December 31, 2004 of \$2,290 million. The decrease in cash and cash equivalents in 2005 was primarily driven by increased capital expenditures and higher acquisitions and investments, partially offset by proceeds from the sale of businesses and lower repayments of borrowings. Our cash and cash equivalents at December 31, 2004 was \$1,621 million higher compared to December 31, 2003. The increase was driven by higher proceeds from disposition of businesses and investments and lower debt repayment activity, partially offset

by higher capital expenditures.

Additional Minimum Pension Liability and Employee Benefit Plan Contributions

We evaluate each pension plan to determine whether an additional minimum pension liability is required or whether any adjustment is necessary as determined by the provisions of SFAS No. 87, "Employers' Accounting for Pensions." In 2005, we recorded a net benefit of \$59 million, primarily in Employee Benefit Obligations and Other Assets. In 2004, we recorded an additional minimum pension liability of \$587 million, primarily in Employee Benefit Obligations in the consolidated balance sheets, as a result of a lower discount rate at December 31, 2004. The changes in the assets and liabilities are recorded in Accumulated Other Comprehensive Loss, net of a tax benefit, in shareowners' investment in the consolidated balance sheets.

We operate numerous qualified and nonqualified pension plans and other postretirement benefit plans. These plans primarily relate to our domestic business units and TELPRI. The majority of Verizon's pension plans are adequately funded. We contributed \$744 million, \$325 million and \$123 million in 2005, 2004 and 2003, respectively, to our qualified pension trusts. We also contributed \$108 million, \$118 million and \$159 million to our nonqualified pension plans in 2005, 2004 and 2003, respectively.

Federal legislation was enacted on April 10, 2004 that provides temporary pension funding relief for the 2004 and 2005 plan years. The legislation replaced the 30-year treasury rate with a higher corporate bond rate for determining the current liability. Based on the funded status of the plans at December 31, 2005, we anticipate qualified pension trust contributions of \$100 million in 2006, primarily for the TELPRI plans. Our estimate of the amount and timing of required qualified pension trust contributions for 2007 is based on current regulations including continued pension funding relief and is approximately \$1,200 million, including TELPRI plans. Nonqualified pension contributions are estimated to be approximately \$145 million and \$180 million for 2006 and 2007, respectively.

Contributions to our other postretirement benefit plans generally relate to payments for benefits primarily on an as-incurred basis since the other postretirement benefit plans do not have similar funding requirements as the pension plans. Consequently, we contributed \$1,085 million, \$1,143 million and \$1,014 million to our other postretirement benefit plans in 2005, 2004 and 2003, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately \$1,180 million in 2006 and \$1,370 million in 2007, prior to anticipated receipts related to Medicare subsidies.

Leasing Arrangements

We are the lessor in leveraged and direct financing lease agreements under which commercial aircraft and power generating facilities, which comprise the majority of the portfolio, along with industrial equipment, real estate property, telecommunications and other equipment are leased for remaining terms of less than 1 year to 50 years as of December 31, 2005. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which holds a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with generally accepted accounting principles. All recourse debt is reflected in our consolidated balance sheets. See "Special Items" for a discussion of lease impairment charges.

Off Balance Sheet Arrangements and Contractual Obligations

Contractual Obligations and Commercial Commitments

The following table provides a summary of our contractual obligations and commercial commitments at December 31, 2005. Additional detail about these items is included in the notes to the consolidated financial statements.

(dollars in millions)					
Contractual Obligations	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (see Note 11)	\$ 36,683	\$ 4,909	\$ 7,078	\$	
4,439	\$ 20,257				
Capital lease obligations (see Note 10)	112	17	36	18	
	41				
Total long-term debt	36,795	4,926	7,114		
	4,457	20,298			
Interest on long-term debt (see Note 11)	24,973	2,219	3,587		
	3,116	16,051			
Operating leases (see Note 10)	4,497	1,184	1,443	820	
	1,050				
Purchase obligations (see Note 22)	669	486	151	22	
	10				
Other long-term liabilities (see Note 15)	3,850	1,280	2,570	-	
	-				
Total contractual obligations	\$ 70,784	\$ 10,095	\$ 14,865	\$	
8,415	\$ 37,409				

Guarantees

In connection with the execution of agreements for the sales of businesses and investments, Verizon ordinarily provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as financial losses.

Subsequent to the sale of Verizon Information Services Canada (see "Special Items - Discontinued Operations"), our Information Services segment continues to provide a guarantee to publish directories, which was issued when the directory business was purchased in 2001 and had a 30-year term (before extensions). The preexisting guarantee continues, without modification, following the sale of Verizon Information Services Canada. The possible financial impact of the guarantee, which is not expected to be adverse, cannot be reasonably estimated since a variety of the potential outcomes available under the guarantee result in costs and revenues or benefits that may offset. In addition, performance under the guarantee is not likely.

As of December 31, 2005, letters of credit totaling \$140 million had been executed in the normal course of business, which support several financing arrangements and payment obligations to third parties.

Market Risk

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in equity investment prices and changes in corporate tax rates. We employ risk management strategies using a variety of derivatives, including interest rate swap agreements, interest rate locks, foreign currency forwards and collars and equity options. We do not hold derivatives for trading purposes.

It is our general policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve our desired objectives in limiting our exposures to the various market risks. Our objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. We do not hedge our market risk exposure in a manner that would completely eliminate the effect of changes in interest rates, equity prices and foreign exchange rates on our earnings. We do not expect that our net income, liquidity and cash flows will be materially affected by these risk management strategies.

Interest Rate Risk

The table that follows summarizes the fair values of our long-term debt and interest rate derivatives as of December 31, 2005 and 2004. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward parallel shifts in the yield curve. Our sensitivity analysis did not include the fair values of our commercial paper and bank loans because they are not significantly affected by changes in market interest rates.

		(dollars in millions)	
At December 31, 2005	Fair Value	Fair Value assuming +100 basis point shift	Fair Value assuming -100 basis point shift
Long-term debt and interest rate derivatives	\$ 38,052	\$ 36,123	
	\$ 40,202		
At December 31, 2004			
Long-term debt and interest rate derivatives	\$ 42,072	\$ 39,952	
	\$ 44,378		

Foreign Currency Translation

The functional currency for our foreign operations is the local currency. At December 31, 2005, our primary translation exposure was to the Venezuelan bolivar, Dominican Republic peso and the euro. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars are recorded as cumulative translation adjustments, which are included in Accumulated Other Comprehensive Loss in our consolidated balance sheets. We also periodically hold cash balances in foreign currencies. The translation of foreign currency cash balances is recorded in the consolidated statements of income in Other Income and (Expense), Net. During 2005, the translation of these cash balances were not material. During 2005, we entered into zero cost euro collars to hedge a portion of our net investment in Vodafone Omnitel. In accordance with the provisions of SFAS No. 133,

“Accounting for Derivative Instruments and Hedging Activities” and related amendments and interpretations, changes in the fair value of these contracts due to exchange rate fluctuations are recognized in Accumulated Other Comprehensive Loss and offset the impact of foreign currency changes on the value of our net investment in the operation being hedged. As of December 31, 2005, our positions in the zero cost euro collars have been settled. We have not hedged our accounting translation exposure to foreign currency fluctuations relative to the carrying value of our other investments.

During 2004, we entered into foreign currency forward contracts to hedge our net investment in our Canadian operations and investments. In accordance with the provisions of SFAS No. 133, changes in the fair value of these contracts due to exchange rate fluctuations were recognized in Accumulated Other Comprehensive Loss and offset the impact of foreign currency changes on the value of our net investment in the operations being hedged. During 2004, we sold our Canadian operations and investments. Accordingly, the unrealized losses on these net investment hedge contracts were realized in net income along with the corresponding foreign currency translation balance. We recorded realized losses of \$106 million (\$58 million after-tax) related to these hedge contracts.

Our earnings were affected by foreign currency gains or losses associated with the U.S. dollar denominated assets and liabilities at Verizon Dominicana.

Through June 30, 2003, our earnings were affected by foreign currency gains or losses associated with the unhedged portion of U.S. dollar denominated debt at Iusacell (see “Consolidated Results of Operations - Other Consolidated Results - Discontinued Operations”).

Significant Accounting Policies and Recent Accounting Pronouncements

Significant Accounting Policies

A summary of the significant accounting policies used in preparing our financial statements are as follows:

- Special and non-recurring items generally represent revenues and gains as well as expenses and losses that are non-operational and/or non-recurring in nature. Several of these special and non-recurring items include impairment losses. These impairment losses were determined in accordance with our policy of comparing the fair value of the asset with its carrying value. The fair value is determined by quoted market prices or by estimates of future cash flows. There is inherent subjectivity involved in estimating future cash flows, which can have a significant impact on the amount of any impairment.
- Verizon’s plant, property and equipment balance represents a significant component of our consolidated assets. Depreciation expense on Verizon’s telephone operations is principally based on the composite group remaining life method and straight-line composite rates, which provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. We depreciate other plant, property and equipment generally on a straight-line basis over the estimated useful life of the assets. Changes in the remaining useful lives of assets as a result of technological change or other changes in circumstances, including competitive factors in the markets where we operate, can have a significant impact on asset balances and depreciation expense.
- We maintain benefit plans for most of our employees, including pension and other postretirement benefit plans. In the aggregate, the fair value of pension plan assets exceeds benefit obligations, which contributes to pension plan income. Other postretirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant benefit plan assumptions, including the discount rate used, the long-term rate of return on plan assets and health care trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations (see “Consolidated Results of Operations - Consolidated Operating Expenses - Pension and Other Postretirement Benefits”). A sensitivity analysis of the impact of changes in these assumptions

on the benefit obligations and expense (income) recorded as of December 31, 2005 and for the year then ended pertaining to Verizon's pension and postretirement benefit plans is provided in the tables below. Note that some of these sensitivities are not symmetrical as the calculations were based on all of the actuarial assumptions as of year-end.

Pension Plans				
(dollars in millions)				
	Percentage point change			Benefit
obligation increase (decrease) at December 31, 2005				Pension expense increase (decrease) for the year ended
December 31, 2005				
Discount rate	+ 1.00	\$ (4,093	)	\$ (216
)			
	- 1.00	5,165		173
Long-term rate of return on plan assets	+ 1.00	-		(393
)			
	- 1.00	-		393
Postretirement Plans				
(dollars in millions)				
	Percentage point change			Benefit
obligation increase (decrease) at December 31, 2005				Postretirement benefit expense increase (decrease) for
the year ended December 31, 2005				
Discount rate	+ 1.00	\$ (3,315	)	\$ (186
)			
	- 1.00	3,774		221
Long-term rate of return on plan assets	+ 1.00	-		(45
)			
	- 1.00	-		45
Health care trend rates	+ 1.00	3,378		474
)			
	- 1.00	(2,745	)	(352
)			

• Our accounting policy concerning the method of accounting applied to investments (consolidation, equity or cost) involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the operations of the entity in which we have invested. Where control is determined, we

consolidate the investment. If we determine that we have significant influence over the operating and financial policies of an entity in which we have invested, we apply the equity method. We apply the cost method in situations where we determine that we do not have significant influence.

• Our current and deferred income taxes, and associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with special and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred income tax assets and the timing of income tax payments. Actual collections and payments may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances.

• Intangible assets are a significant component of our consolidated assets. Wireless licenses of \$47,804 million represent the largest component of our intangible assets. Our wireless licenses are indefinite-lived intangible assets, and as required by SFAS No. 142, are not amortized but are periodically evaluated for impairment. Any impairment loss would be determined by comparing the fair value of the wireless licenses with their carrying value. For 2004 and 2003, we used a residual method, which determined fair value by estimating future cash flows of the wireless business. Beginning in 2005, we began using a direct value approach in accordance with a September 29, 2004 Staff Announcement from the staff of the Securities and Exchange Commission (SEC), "Use of the Residual Method to Value Acquired Assets Other Than Goodwill." The direct value approach also determines fair value by estimating future cash flows. There is inherent subjectivity involved in estimating future cash flows, which can have a material impact on the amount of any impairment.

Recent Accounting Pronouncements

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which revises SFAS No. 123. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense based on their fair value. Effective January 1, 2003, Verizon adopted the fair value recognition provisions of SFAS No. 123. We plan to adopt SFAS No. 123(R) effective January 1, 2006, using the modified prospective method and expect that any impact will not be material to our financial position or ongoing results of operations.

Other Factors That May Affect Future Results

Recent Developments

MCI Merger

On February 14, 2005, Verizon announced that it had agreed to acquire MCI for a combination of Verizon common shares and cash (including MCI dividends). On May 2, 2005, Verizon announced that it agreed with MCI to further amend its agreement to acquire MCI for cash and stock of at least \$26.00 per share, consisting of cash of \$5.60, which was paid as a special dividend by MCI on October 27, 2005, after the October 6, 2005 approval of the transaction by MCI shareholders, plus the greater of .5743 Verizon shares for each MCI common share or a sufficient number of Verizon shares to deliver to shareholders \$20.40 of value. Under this price protection feature, Verizon had the option of paying additional cash instead of issuing additional shares over the .5743 exchange ratio. This consideration was subject to adjustment at closing and may have been decreased based on MCI's bankruptcy claims-related experience and international tax liabilities. The merger received the required state, federal and international regulatory approvals by year-end 2005, and on January 6, 2006, Verizon and MCI closed the merger.

Under terms of the merger agreement, MCI shareholders received .5743 shares of Verizon and cash for each of their MCI shares. Verizon elected to make a supplemental cash payment of \$2.738 per MCI share, \$779 million in the aggregate, rather than issue additional shares of Verizon common stock, so that the merger consideration was equal to at least \$20.40 per MCI share. Verizon and MCI management mutually agreed that there was no purchase price adjustment related to the amount of MCI's bankruptcy claims-related experience and international tax liabilities.

Separately, on April 9, 2005, Verizon entered into a stock purchase agreement with eight entities affiliated with Carlos Slim Helu to purchase 43.4 million shares of MCI common stock for \$25.72 per share in cash plus an additional cash amount of 3% per annum from April 9, 2005 until the closing of the purchase of those shares. The transaction closed on May 17, 2005 and the additional cash payment was made through May 13, 2005. The total cash payment was \$1,121 million. Under the stock purchase agreement, Verizon will pay the Slim entities an adjustment at the end of one year in an amount per MCI share calculated by multiplying (i) .7241 by (ii) the amount, if any, by which the price of Verizon's common stock exceeds \$35.52 per share (measured over a 20-day period), subject to a maximum excess amount per Verizon share of \$26.98. After the closing of the stock purchase agreement, Verizon transferred the shares of MCI common stock it had purchased to a trust established pursuant to an agreement between Verizon and the Department of Justice. We received the special dividend of \$5.60 per MCI share on these 43.4 million MCI shares, or \$243 million, on October 27, 2005.

Redemption of MCI Debt

On January 17, 2006, Verizon announced offers to purchase two series of MCI senior notes, MCI \$1,983 million aggregate principal amount of 6.688% Senior Notes Due 2009 and MCI \$1,699 million aggregate principal amount of 7.735% Senior Notes Due 2014, at 101% of their par value. Due to the change in control of MCI that occurred in connection with the merger with Verizon on January 6, 2006, Verizon is required to make this offer to noteholders within 30 days of the closing of the merger of MCI and Verizon. Separately, Verizon notified noteholders that MCI is exercising its right to redeem both series of Senior Notes prior to maturity under the optional redemption procedures provided in the indentures. The 6.688% Notes were redeemed on March 1, 2006, and the 7.735% Notes were redeemed on February 16, 2006.

In addition, on January 20, 2006, Verizon announced an offer to repurchase MCI \$1,983 million aggregate principal amount of 5.908% Senior Notes Due 2007 at 101% of their par value. On February 21, 2006, \$1,804 million of these notes were redeemed by Verizon. Verizon satisfied and discharged the indenture governing this series of notes shortly after the close of the offer for those noteholders who did not accept this offer.

Issuance of Debt

In February 2006, Verizon issued \$4,000 million of floating rate and fixed rate notes maturing from 2007 through 2035.

Spectrum Purchases

On February 15, 2005, the FCC's auction of broadband personal communications services licenses ended and Verizon Wireless and Vista PCS, LLC were the highest bidders for 63 licenses totaling approximately \$697 million. On May 13, 2005, the licenses won by Verizon Wireless were granted by the FCC. The licenses won by Vista PCS remain subject to FCC approval.

Sales of Businesses and Investments

Information Services

In December 2005, we announced that we are exploring divesting Information Services through a spin-off, sale or

other strategic transaction. However, since this process is still ongoing, Information Services' results of operations, financial position and cash flows remain in Verizon's continuing operations.

Telephone Access Lines

We continually consider plans for a reduction in the size of our access line business, including through a spin-off mechanism or otherwise, so that we may pursue our strategy of placing greater focus on the higher growth businesses of broadband and wireless.

Environmental Matters

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. As a result, an additional environmental remediation expense of \$240 million was recorded in 2003, for remedial activities likely to take place over the next several years. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to this reserve may be made. Adjustments may also be made based upon actual conditions discovered during the remediation at any of the sites requiring remediation.

New York Recovery Funding

In August 2002, President Bush signed the Supplemental Appropriations bill that included \$5.5 billion in New York recovery funding. Of that amount, approximately \$750 million has been allocated to cover utility restoration and infrastructure rebuilding as a result of the September 11th terrorist attacks on lower Manhattan. These funds will be distributed through the Lower Manhattan Development Corporation following an application and audit process. As of September 2004, we had applied for reimbursement of approximately \$266 million under Category One, although we did not record this amount as a receivable. We received advances totaling \$88 million in connection with this application process. On December 22, 2004, we applied for reimbursement of an additional \$136 million of "category 2" losses, and on March 29, 2005 we amended our application seeking an additional \$3 million. Category 2 funding is for permanent restoration and infrastructure improvement. According to the plan, permanent restoration is reimbursed up to 75% of the loss. On November 3, 2005, we received the results of preliminary audit findings disallowing all but \$44 million of our original \$266 million of costs in our Category One applications. On December 8, 2005, we provided a detailed rebuttal to the preliminary audit findings and are currently awaiting the final audit report. Our applications are pending.

Regulatory and Competitive Trends

Competition and Regulation

Technological, regulatory and market changes have provided Verizon both new opportunities and challenges. These changes have allowed Verizon to offer new types of services in this increasingly competitive market. At the same time, they have allowed other service providers to broaden the scope of their own competitive offerings. Current and potential competitors for network services include other telephone companies, cable companies, wireless service providers, foreign telecommunications providers, satellite providers, electric utilities, Internet service providers, providers of voice over the Internet, or VoIP services, and other companies that offer network services using a variety of technologies. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth. Many of our competitors also remain subject to fewer regulatory constraints than Verizon.

We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new opportunities.

FCC Regulation

Our services are subject to the jurisdiction of the FCC with respect to interstate telecommunications services and other matters for which the FCC has jurisdiction under the Communications Act of 1934, as amended.

Broadband

The FCC has adopted a series of orders that recognize the competitive nature of the broadband market, and impose lesser regulatory requirements to broadband services and facilities than apply to narrowband. With respect to facilities, the FCC has determined that certain unbundling requirements that apply to narrowband facilities do not apply to broadband facilities such as fiber to the premise loops and packet switches. With respect to services, the FCC has concluded that broadband Internet access services offered by telephone companies and their affiliates qualify as largely deregulated information services. The same order also concluded that telephone companies may offer the underlying broadband transmission services that are used as an input to Internet access services through private carriage arrangements on negotiated commercial terms. The FCC's order addressing the appropriate regulatory treatment of broadband Internet access services is the subject of a pending appeal.

Video

The FCC has a body of rules that apply to cable operators under Title VI of the Communications Act of 1934, and these rules also generally apply to telephone companies that provide cable services over their networks. In addition, companies that provide cable service over a cable system generally must obtain a local cable franchise. The FCC currently is conducting a rulemaking proceeding to determine whether the local franchising process is serving as a barrier to entry for new providers of video services, like Verizon. In this proceeding, the FCC is evaluating the scope of its authority over the local franchise process and is considering adopting rules under Section 621 of the Communications Act of 1934 to ensure that the local franchising process does not undermine competitive entry.

Interstate Access Charges and Intercarrier Compensation

The current framework for interstate access rates was established in the Coalition for Affordable Local and Long Distance Services (CALLS) plan, which the FCC adopted on May 31, 2000. The CALLS plan has three main components. First, it establishes portable interstate access universal service support of \$650 million for the industry that replaces implicit support previously embedded in interstate access charges. Second, the plan simplifies the patchwork of common line charges into one subscriber line charge (SLC) and provides for de-averaging of the SLC by zones and class of customers. Third, the plan set into place a mechanism to transition to a set target of \$.0055 per minute for switched access services. Once that target rate is reached, local exchange carriers are no longer required to make further annual price cap reductions to their switched access prices. As a result of tariff adjustments which became effective in July 2003, virtually all of our switched access lines reached the \$.0055 benchmark.

The FCC currently is conducting a broad rulemaking proceeding to consider new rules governing intercarrier compensation including, but not limited to, access charges, compensation for Internet traffic, and reciprocal compensation for local traffic. The notice seeks comments about intercarrier compensation in general, and requests input on seven specific reform proposals.

The FCC also has pending before it issues relating to intercarrier compensation for dial-up Internet-bound traffic.

The FCC previously found this traffic is not subject to reciprocal compensation under Section 251(b)(5) of the Telecommunications Act of 1996. Instead, the FCC established federal rates per minute for this traffic that declined from \$.0015 to \$.0007 over a three-year period, established caps on the total minutes of this traffic subject to compensation in a state, and required incumbent local exchange carriers to offer to both bill and pay reciprocal compensation for local traffic at the same rate as they are required to pay on Internet-bound traffic. The U.S. Court of Appeals for the D.C. Circuit rejected part of the FCC's rationale, but declined to vacate the order while it is on remand. As a result, pending further action by the FCC, the FCC's underlying order remains in effect. The FCC subsequently denied a petition to discontinue the \$.0007 rate cap on this traffic, but removed the caps on the total minutes of Internet-bound traffic subject to compensation. That decision is the subject of an appeal by several parties. Disputes also remain pending in a number of forums relating to the appropriate compensation for Internet-bound traffic during previous periods under the terms of our interconnection agreements with other carriers.

The FCC also is conducting a rulemaking proceeding to address the regulation of services that use Internet protocol, including whether access charges should apply to voice or other Internet protocol services. The FCC also considered several petitions asking whether, and under what circumstances, services that employ Internet protocol are subject to access charges. The FCC previously has held that one provider's peer-to-peer Internet protocol service that does not use the public switched network is an interstate information service and is not subject to access charges, while a service that utilizes Internet protocol for only one intermediate part of a call's transmission is a telecommunications service that is subject to access charges. Another petition asking the FCC to forbear from applying access charges to voice over Internet protocol services that are terminated on switched local exchange networks was withdrawn by the carrier that filed that petition. The FCC also declared the services offered by one provider of a voice over Internet protocol service to be jurisdictionally interstate on the grounds that it was impossible to separate that carrier's Internet protocol service into interstate and intrastate components. The FCC also stated that its conclusion would apply to other services with similar characteristics. That order has been appealed.

The FCC also has adopted rules for special access services that provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met. More than half of special access revenues are now removed from price regulation. The FCC currently has a rulemaking proceeding underway to evaluate experience under its pricing flexibility rules, and to determine whether any changes to those rules are warranted.

Universal Service

The FCC also has a body of rules implementing the universal service provisions of the Telecommunications Act of 1996, including rules governing support to rural and non-rural high-cost areas, support for low income subscribers, and support for schools, libraries and rural health care. The FCC's current rules for support to high-cost areas served by larger "non-rural" local telephone companies were previously remanded by U.S. Court of Appeals for the Tenth Circuit, which had found that the FCC had not adequately justified these rules. The FCC has initiated a rulemaking proceeding in response to the court's remand, but its rules remain in effect pending the results of the rulemaking. The FCC also has proceedings underway to evaluate possible changes to its current rules for assessing contributions to the universal service fund. Any change in the current assessment mechanism could result in a change in the contribution that local telephone companies, wireless carriers or others must make and that would have to be collected from customers.

Unbundling of Network Elements

Under section 251 of the Telecommunications Act of 1996, incumbent local exchange carriers were required to provide competing carriers with access to components of their network on an unbundled basis, known as UNEs, where certain statutory standards are satisfied. The Telecommunications Act of 1996 also adopted a cost-based pricing standard for these UNEs, which the FCC interpreted as allowing it to impose a pricing standard known as "total element long run incremental cost" or "TELRIC." The FCC's rules defining the unbundled network elements that must be made available at TELRIC prices have been overturned on multiple occasions by the courts. In its most recent order issued in response to these court decisions, the FCC eliminated the requirement to

unbundle mass market local switching on a nationwide basis, with the obligation to accept new orders ending as of the effective date of the order (March 11, 2005). The FCC also established a one year transition for existing UNE switching arrangements. For high capacity transmission facilities, the FCC established criteria for determining whether high capacity loops, transport or dark fiber transport must be unbundled in individual wire centers, and stated that these standards were only expected to affect a small number of wire centers. The FCC also eliminated the obligation to provide dark fiber loops and found that there is no obligation to provide UNEs exclusively for wireless or long distance service. In any instance where a particular high capacity facility no longer has to be made available as a UNE, the FCC established a similar one year transition for any existing high capacity loop or transport UNEs, and an 18 month transition for any existing dark fiber UNEs. Verizon and other parties have challenged various aspects of the new FCC rules on appeal.

As noted above, the FCC has concluded that the requirement under Section 251 of the Telecommunications Act of 1996 to provide unbundled network elements at TELRIC prices generally does not apply with respect to broadband facilities, such as fiber to the premises loops, the packet-switched capabilities of hybrid loops and packet switching. The FCC also has held that any separate unbundling obligations that may be imposed by Section 271 of the Telecommunications Act of 1996 do not apply to these same facilities. The decision with respect to Section 271 is the subject of an ongoing appeal.

Cautionary Statement Concerning Forward-Looking Statements

In this Management's Discussion and Analysis of Results of Operations and Financial Condition, and elsewhere in this Annual Report, we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this Annual Report, could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- materially adverse changes in economic and industry conditions and labor matters, including workforce levels and labor negotiations, and any resulting financial and/or operational impact, in the markets served by us or by companies in which we have substantial investments;
- material changes in available technology;
- technology substitution;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations;
- the final results of federal and state regulatory proceedings concerning our provision of retail and wholesale services and judicial review of those results;
- the effects of competition in our markets;
- the timing, scope and financial impacts of our deployment of fiber-to-the-premises broadband technology;

• the ability of Verizon Wireless to continue to obtain sufficient spectrum resources;

• changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings; and

• the extent and timing of our ability to obtain revenue enhancements and cost savings following our business combination with MCI.

Report of Management on Internal Control Over Financial Reporting

We, the management of Verizon Communications Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the company. Management has evaluated internal control over financial reporting of the company using the criteria for effective internal control established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2005. Based on this assessment, we believe that the internal control over financial reporting of the company is effective as of December 31, 2005. In connection with this assessment, there were no material weaknesses in the company's internal control over financial reporting identified by management.

The company's financial statements included in this annual report have been audited by Ernst & Young LLP, independent registered public accounting firm. Ernst & Young LLP has also issued an attestation report on management's assessment of the company's internal control over financial reporting.

/s/ Ivan G. Seidenberg

Ivan G. Seidenberg
Chairman and Chief Executive Officer

/s/ Doreen A. Toben

Doreen A. Toben
Executive Vice President and Chief Financial Officer

/s/ Thomas A. Bartlett

Thomas A. Bartlett
Senior Vice President and Controller

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To The Board of Directors and Shareowners of Verizon Communications Inc.:

We have audited management's assessment, included in the accompanying Report of Management on Internal Control Over Financial Reporting, that Verizon Communications Inc. and subsidiaries (Verizon) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Verizon's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Verizon maintained effective internal control over financial reporting, as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Verizon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Verizon as of December 31, 2005 and 2004, and the related consolidated statements of income, cash flows and changes in shareowners' investment for each of the three years in the period ended December 31, 2005 and our report dated February 23, 2006 expressed an unqualified opinion thereon.

		Ernst & Young LLP

	Ernst & Young LLP
	New York, New York
	February 23, 2006

Report of Independent Registered Public Accounting Firm on Financial Statements

To The Board of Directors and Shareowners of Verizon Communications Inc.:

We have audited the accompanying consolidated balance sheets of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2005 and 2004, and the related consolidated statements of income, cash flows and changes in shareowners' investment for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Verizon at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, Verizon changed its methods of accounting for directory revenues and expenses, stock-based compensation and asset retirement obligations effective January 1, 2003.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Verizon's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2006 expressed an unqualified opinion thereon.

	Ernst & Young LLP
	Ernst & Young LLP
	New York, New York
	February 23, 2006

Consolidated Statements of Income Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts)

Years Ended December 31,	2005	2004
Operating Revenues	\$ 75,112	\$ 71,283
		\$ 67,468
Operating Expenses		
Cost of services and sales (exclusive of items shown below)	25,469	23,168
		21,701
Selling, general & administrative expense	21,312	21,088
		24,894
Depreciation and amortization expense	14,047	13,910
		13,607
Sales of businesses, net	(530)	-
	(141)	
Total Operating Expenses	60,298	58,166
		60,061
Operating Income	14,814	13,117
		7,407
Equity in earnings of unconsolidated businesses	689	1,691
		1,278
Income from other unconsolidated businesses	92	75
	331	
Other income and (expense), net	237	22
	37	
Interest expense	(2,180)	(2,384)
		(2,797)

Minority interest	(3,045	)	(2,409			
	)		(1,583)		
Income Before Provision for Income Taxes, Discontinued Operations and Cumulative Effect of Accounting Change	10,607		10,112			
			4,673			
Provision for income taxes	(3,210	)	(2,851			
	)		(1,213)		
Income Before Discontinued Operations and Cumulative Effect of Accounting Change			7,397			
			7,261			
			3,460			
Discontinued Operations						
Income (loss) from operations	-		1,116			
			(869)		
Provision for income taxes	-		(546			
	)		(17)		
Income (loss) on discontinued operations, net of tax	-		570			
			(886)		
Cumulative Effect of Accounting Change, Net of Tax	-		-			
			503			
Net Income	\$ 7,397		\$ 7,831			
			\$ 3,077			
Basic Earnings Per Common Share:						
Income before discontinued operations and cumulative effect of accounting change			\$ 2.67			
			\$ 2.62			
			\$ 1.26			
Income (loss) on discontinued operations, net of tax	-		.21			
			(.32)		
Cumulative effect of accounting change, net of tax	-		-			
			.18			
Net Income ^(a)	\$ 2.67		\$ 2.83			
			\$ 1.12			
Weighted-average shares outstanding (in millions)	2,766		2,770			
			2,756			

Diluted Earnings Per Common Share:			
Income before discontinued operations and cumulative effect of accounting change		\$ 2.65	
		\$ 2.59	
		\$ 1.25	
Income (loss) on discontinued operations, net of tax	-	.20	
		(.31)	
Cumulative effect of accounting change, net of tax	-	-	
	.18		
Net Income ⁽¹⁾	\$ 2.65	\$ 2.79	
		\$ 1.12	
Weighted-average shares outstanding (in millions)	2,817	2,831	
		2,832	

(1) Total per share amounts may not add due to rounding.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts)

At December 31,	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$ 776	\$
2,290		
Short-term investments	2,498	2,257
Accounts receivable, net of allowances of \$1,288 and \$1,670	9,171	

		9,801		
Inventories	1,780			
		1,535		
Assets held for sale	-			
		950		
Prepaid expenses and other	2,223			
		2,646		
Total current assets	16,448			
		19,479		
Plant, property and equipment	193,610			
		185,522		
Less accumulated depreciation	118,305			
		111,398		
	75,305			
		74,124		
Investments in unconsolidated businesses	4,604			
		5,855		
Wireless licenses	47,804			
		42,090		
Goodwill	836			
		837		
Other intangible assets, net	4,293			
		4,521		
Other assets	18,840			
		19,052		
Total assets	\$ 168,130			
		\$		
165,958				

Liabilities and Shareowners' Investment				
Current liabilities				
Debt maturing within one year	\$ 7,141			
	\$			
3,593				
Accounts payable and accrued liabilities	12,351			
	13,177			
Liabilities related to assets held for sale	-			
	525			
Other	5,571			
	5,834			
Total current liabilities	25,063			
	23,129			
Long-term debt	31,869			
	35,674			
Employee benefit obligations	18,819			
	17,941			
Deferred income taxes	22,411			
	22,532			
Other liabilities	3,534			
	4,069			
Minority interest	26,754			
	25,053			
Shareowners' investment				
Series preferred stock (\$.10 par value; none issued)	-			
	-			

Common stock (\$.10 par value; 2,774,865,381 shares issued in both periods)	277		
	277		
Contributed capital	25,369		
	25,404		
Reinvested earnings	15,905		
	12,984		
Accumulated other comprehensive loss	(1,783)		
	) (1,053		
)		
Common stock in treasury, at cost	(353)		
	(142)		
Deferred compensation-employee stock ownership plans and other	265		
	90		
Total shareowners' investment	39,680		
	37,560		
Total liabilities and shareowners' investment	\$ 168,130		
	\$		

165,958

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows Verizon Communications Inc. and Subsidiaries

(dollars in millions)			
Years Ended December 31,	2005	2004	2003
Cash Flows from Operating Activities			
Net Income	\$ 7,397	\$	
7,831		\$ 3,077	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	14,047	13,910	

			13,607		
Sales of businesses, net	(530))	-		
			(141)		
)			
(Gain) loss on sale of discontinued operations	-	)	(516)		
		)	931		
Employee retirement benefits	1,840	)	1,999		
			3,048		
Deferred income taxes	(1,059)	)	1,842		
			826		
Provision for uncollectible accounts	1,290	)	1,181		
			1,789		
Income from unconsolidated businesses	(781)	)	(1,766)		
		)	(1,609)		
)			
Cumulative effect of accounting change, net of tax	-)	-		
			(503)		
)			
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses:					
Accounts receivable	(933)	)	(1,617)		
		)	(938)		
)			
Inventories	(252)	)	(274)		
		)	(80)		
)			
Other assets	(191)	)	578		
			101		
Accounts payable and accrued liabilities	(1,034)	)	(1,930)		
		)	2,657		
Other, net	2,218	)	582		
			(298)		
)			
Net cash provided by operating activities	22,012	)	21,820		
			22,467		

Cash Flows from Investing Activities				
Capital expenditures (including capitalized software)	(15,324	)	(13,259	
	)		(11,874	
)			
Acquisitions, net of cash acquired, and investments	(4,684	)	(1,196	
	)		(1,162	
)			
Proceeds from disposition of businesses	1,326		117	
			229	
Proceeds from discontinued operations	-		1,603	
			-	
Net change in short-term and other current investments	(344	)	(100	
	)		(120	
)			
Other, net	534		2,492	
			691	
Net cash used in investing activities	(18,492	)	(10,343	
	)		(12,236	
)			
Cash Flows from Financing Activities				
Proceeds from long-term borrowings	1,487		514	
			4,653	
Repayments of long-term borrowings and capital lease obligations	(3,919	)	(5,198	
	)		(10,759	
)			
Increase (decrease) in short-term obligations, excluding current maturities	2,129		(783	
	)		(1,330	
)			
Dividends paid	(4,427	)	(4,262	
	)		(4,239	
)			
Proceeds from sale of common stock	37		320	
			839	
Purchase of common stock for treasury	(271	)	(370	
)		-	
Other, net	(70	)	(77	

	)	(123		
)			
Net cash used in financing activities	(5,034	)	(9,856	
	)	(10,959		
)			
Increase (decrease) in cash and cash equivalents	(1,514	)	1,621	
		(728		
)			
Cash and cash equivalents, beginning of year	2,290		669	
			1,397	
Cash and cash equivalents, end of year	\$ 776		\$	
2,290			\$ 669	

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareowners' Investment Verizon Communications Inc. and Subsidiaries

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(dollars in millions, except per share amounts, and shares in thousands)

Years Ended December 31,	2005		2004		2003	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	2,774,865	\$ 277	2,772,314	\$ 277		
	2,751,650	\$ 275				
Shares issued						
Employee plans	-	-	2,501	-		
	20,664	2				
Shareowner plans	-	-	50	-		
Shares retired	-	-	-	-		
Balance at end of year	2,774,865	277	2,774,865	277		
	2,772,314	277				
Contributed Capital						

Balance at beginning of year			25,404			25,363		
			24,685					
Shares issued-employee and shareowner plans			(24	)		2		
			725					
Tax benefit from exercise of stock options			-			41		
			12					
Other			(11	)		(2)	
			(59)				
Balance at end of year			25,369			25,404		
			25,363					

Reinvested Earnings

Balance at beginning of year			12,984			9,409		
			10,536					
Net income			7,397			7,831		
			3,077					
Dividends declared (\$1.62, \$1.54 and \$1.54 per share)			(4,479)				
			(4,265	)		(4,250)	
Shares issued-employee and shareowner plans			-			-		
			39					
Other			3			9		
			7					
Balance at end of year			15,905			12,984		
			9,409					

Accumulated Other Comprehensive Loss

Balance at beginning of year			(1,053	)		(1,250)	
			(2,110)				
Foreign currency translation adjustment			(755	)		548		
			568					
Unrealized gains on net investment hedges			2			-		
			-					
Unrealized gains (losses) on marketable securities			(21	)		7		
			1					
Unrealized derivative gains (losses) on cash flow hedges			10					
			17			(21)	
Minimum pension liability adjustment			34			(375		
			)			312		
Other comprehensive income (loss)			(730	)		197		
			860					
Balance at end of year			(1,783	)		(1,053)	

		(1,250)				
Treasury Stock							
Balance at beginning of year	(5,213	)	(142	)	(4,554	)	(115
	(8,624	)	(218)			
Shares purchased	(7,859	)	(271	)	(9,540	)	(370
							-
Shares distributed							
Employee plans	1,594		59		8,881		343
							4,047
							102
Shareowner plans	22		1		-		-
							23
							1
Balance at end of year	(11,456	)	(353	)	(5,213	)	(142
	(4,554	)	(115)			
Deferred Compensation-ESOPs and Other							
Balance at beginning of year			90				(218
)
							(552
Amortization			174				301
							312
Other			1				7
							22
Balance at end of year			265				90
							(218
Total Shareowners' Investment			\$ 39,680				\$ 37,560
			\$ 33,466				
Comprehensive Income							
Net income			\$ 7,397				\$ 7,831
			\$ 3,077				
Other comprehensive income (loss) per above					(730	)	197
							860
Total Comprehensive Income			\$ 6,667				\$ 8,028
			\$ 3,937				

See Notes to Consolidated Financial Statements.

Note 1**Description of Business and Summary of Significant Accounting Policies**

Description of Business

Verizon Communications Inc. (Verizon) is one of the world's leading providers of communications services. Verizon's domestic wireline telecommunications business provides local telephone services, including broadband, in 28 states and Washington, D.C. and nationwide long-distance and other communications products and services. Verizon's domestic wireless business, operating as Verizon Wireless, provides wireless voice and data products and services across the United States using one of the most extensive wireless networks. Information Services operates directory publishing businesses and provides electronic commerce services. Verizon's International segment includes wireline and wireless communications operations and investments in the Americas and Europe. We have four reportable segments, which we operate and manage as strategic business units: Domestic Telecom, Domestic Wireless, Information Services and International. For further information concerning our business segments, see Note 17.

In connection with the closing of the merger with MCI, Inc. (MCI), which occurred on January 6, 2006, Verizon now owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks which includes over 270,000 domestic and 360,000 international route miles of fiber optic cable and provides access to over 140 countries worldwide. Operating as Verizon Business, we are now better able to provide next-generation IP network services to medium and large businesses and government customers. For further information concerning the merger with MCI, see Note 24.

Consolidation

The method of accounting applied to investments, whether consolidated, equity or cost, involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the operations of the investee. The consolidated financial statements include our controlled subsidiaries. Investments in businesses which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method. Equity and cost method investments are included in Investments in Unconsolidated Businesses in our consolidated balance sheets. Certain of our cost method investments are classified as available-for-sale securities and adjusted to fair value pursuant to Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

All significant intercompany accounts and transactions have been eliminated.

We have reclassified prior year amounts to conform to the current year presentation.

Discontinued Operations, Assets Held for Sale, and Sales of Businesses and Investments

We classify as discontinued operations any component of our business that we hold for sale or dispose of that has operations and cash flows that are clearly distinguishable operationally and for financial reporting purposes from the rest of Verizon. For those components, Verizon has no significant continuing involvement after disposal and their operations and cash flows are eliminated from Verizon's ongoing operations. Sales not classified as discontinued operations are reported as either Sales of Businesses, Net, Equity in Earnings of Unconsolidated Businesses or Income From Other Unconsolidated Businesses in our consolidated statements of income.

Use of Estimates

We prepare our financial statements using generally accepted accounting principles (GAAP), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of plant, property and equipment, intangible assets and other long-lived assets, valuation allowances on tax assets and pension and postretirement benefit assumptions.

Revenue Recognition

Domestic Telecom

Our Domestic Telecom segment earns revenue based upon usage of our network and facilities and contract fees. In general, fixed fees for local telephone, long distance and certain other services are billed one month in advance and recognized the following month when earned. Revenue from other products that are not fixed fee or that exceed contracted amounts is recognized when such services are provided.

We recognize equipment revenue for services, in which we bundle the equipment with maintenance and monitoring services, when the equipment is installed in accordance with contractual specifications and ready for the customer's use. The maintenance and monitoring services are recognized monthly over the term of the contract as we provide the services. Long-term contracts are accounted for using the percentage of completion method. We use the completed contract method if we cannot estimate the costs with a reasonable degree of reliability.

Customer activation fees, along with the related costs up to but not exceeding the activation fees, are deferred and amortized over the customer relationship period.

Domestic Wireless

Our Domestic Wireless segment earns revenue by providing access to and usage of our network, which includes roaming and long distance revenue. In general, access revenue is billed one month in advance and recognized when earned. Airtime and usage revenue, roaming revenue and long distance revenue are recognized when the service is rendered. Equipment sales revenue associated with the sale of wireless handsets and accessories is recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Customer activation fees are considered additional consideration when handsets are sold to the customers at a discount and are recorded as equipment sales revenue.

Information Services

Information Services earns revenues primarily from print and online directory publishing. This segment recognizes revenues and expenses in our print directory business using the amortization method. Under the amortization method, revenues and direct expenses, primarily printing and distribution costs, are recognized over the life of the directory, which is usually 12 months. Revenue from our online directory, SuperPages.com, is recognized in the month it is earned.

International

The consolidated wireline and wireless businesses that comprise our International segment recognize revenue in a similar manner as our other segments. In addition, this segment holds several investments that are either accounted for under the equity or cost method of accounting. For additional detail on our accounting policy related to these investments, see "Consolidation" above.

Maintenance and Repairs

We charge the cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, principally to Cost of Services and Sales as these costs are incurred.

Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of shares outstanding during the year. Diluted earnings per common share include the dilutive effect of shares issuable under our stock-based compensation plans, an exchangeable equity interest (see Note 9), and the zero-coupon convertible notes (see Note 11), which represent the only potentially dilutive common shares.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents, except cash equivalents held as short-term investments. Cash equivalents are stated at cost, which approximates market value.

Short-Term Investments

Our short-term investments consist primarily of cash equivalents held in trust to pay for certain employee benefits. Short-term investments are stated at cost, which approximates market value.

Marketable Securities

We continually evaluate our investments in marketable securities for impairment due to declines in market value considered to be other than temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other than temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established. These investments are included in the accompanying consolidated balance sheets in Investments in Unconsolidated Businesses or Other Assets.

Inventories

We include in inventory new and reusable supplies and network equipment of our telephone operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost (determined principally on either an average cost or first-in, first-out basis) or market.

Plant and Depreciation

We record plant, property and equipment at cost. Our telephone operations' depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

The asset lives used by our telephone operations are presented in the following table:

Average Lives (in years)	
Buildings	25 - 42

Central office equipment	5 - 11	
Outside communications plant		
Copper cable	13 - 18	
Fiber cable	20	
Poles and conduit	30 - 50	
Furniture, vehicles and other	3 - 15	

When we replace or retire depreciable plant used in our wireline network, we deduct the carrying amount of such plant from the respective accounts and charge it to accumulated depreciation (see Note 2 for additional information on the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations").

Plant, property and equipment of our other subsidiaries is generally depreciated on a straight-line basis over the following estimated useful lives: buildings, 8 to 42 years; wireless plant equipment, 3 to 15 years; and other equipment, 1 to 20 years.

When the depreciable assets of our other subsidiaries are retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, and any gains or losses on disposition are recognized in income.

We capitalize network software purchased or developed in connection with related plant assets. We also capitalize interest associated with the acquisition or construction of plant assets. Capitalized interest is reported as a cost of plant and a reduction in interest cost.

In connection with our ongoing review of the estimated remaining useful lives of plant, property and equipment and associated depreciation rates, we determined that, effective January 1, 2005, the remaining useful lives of three categories of telephone assets would be shortened by 1 to 2 years. These changes in asset lives were based on Verizon's plans, and progress to date on those plans, to deploy fiber optic cable to homes, replacing copper cable. While the timing and extent of current deployment plans are subject to modification, Verizon management believes that current estimates of reductions in impacted asset lives is reasonable and subject to ongoing analysis as deployment of fiber optic lines continues. The asset categories impacted and useful life changes are as follows:

Average Lives (in years)	From	To
Central office equipment		
Digital switches	12	11
Circuit equipment	9	8 - 9
Outside plant		
Copper cable	15 - 19	13 - 18

Computer Software Costs

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year in accordance with Statement of Position (SOP) No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of non-network internal-use software. Capitalized non-network internal-use software costs are amortized using the straight-line method over a period of 1 to 7 years and are included in Other Intangible Assets, Net in our consolidated balance sheets. For a discussion of our impairment policy for capitalized software costs under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," see "Goodwill and Other Intangibles" below. Also, see Note 7 for additional detail

of non-network internal-use software reflected in our consolidated balance sheets.

Goodwill and Other Intangible Assets

Goodwill

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed at least annually unless indicators of impairment exist. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Reporting units may be operating segments or one level below an operating segment, referred to as a component. Businesses for which discrete financial information is available are generally considered to be components of an operating segment. Components that are economically similar and managed by the same segment management group are aggregated and considered a reporting unit under SFAS No. 142, "Goodwill and Other Intangible Assets." Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment.

Intangible Assets Not Subject to Amortization

A significant portion of our intangible assets are Domestic Wireless licenses, including licenses associated with equity method investments, that provide our wireless operations with the exclusive right to utilize designated radio frequency spectrum to provide cellular communication services. While licenses are issued for only a fixed time, generally ten years, such licenses are subject to renewal by the Federal Communications Commission (FCC). Renewals of licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. As a result, we treat the wireless licenses as an indefinite-lived intangible asset under the provisions of SFAS No. 142. We reevaluate the useful life determination for wireless licenses each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

We have tested our Domestic Wireless licenses for impairment at least annually unless indicators of impairment exist. Beginning in 2005, we began using a direct value approach in performing our annual impairment test on our Domestic Wireless licenses. The direct value approach determines fair value using estimates of future cash flows associated specifically with the licenses. Previously, we used a residual method, which determined the fair value of the wireless business by estimating future cash flows of the wireless operations. The fair value of aggregate wireless licenses was determined by subtracting from the fair value of the wireless business the fair value of all of the other net tangible and intangible (primarily recognized and unrecognized customer relationship intangible assets) assets of our wireless operations. We determined the fair value of our customer relationship intangible assets based on our average customer acquisition costs. We began using the direct value approach in 2005 in accordance with a September 29, 2004 Staff Announcement from the staff of the Securities and Exchange Commission (SEC), "Use of the Residual Method to Value Acquired Assets Other Than Goodwill." Under either the direct method or the residual method, if the fair value of the aggregated wireless licenses was less than the aggregated carrying amount of the licenses, an impairment would have been recognized.

Intangible Assets Subject to Amortization

Our intangible assets that do not have indefinite lives (primarily customer lists and non-network internal-use software) are amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, which only requires testing whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indicators were present, we would test for recoverability by comparing the carrying amount of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount (i.e., the asset is not recoverable), we would

perform the next step which is to determine the fair value of the asset and record an impairment, if any. We reevaluate the useful life determination for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful life.

For information related to the carrying amount of goodwill by segment as well as the major components and average useful lives of our other acquired intangible assets, see Note 7.

Sale of Stock By Subsidiary

We recognize in consolidation changes in our ownership percentage in a subsidiary caused by issuances of the subsidiary's stock as adjustments to Contributed Capital.

Income Taxes

Verizon and its domestic subsidiaries file a consolidated federal income tax return.

Our telephone operations use the deferral method of accounting for investment tax credits earned prior to the repeal of investment tax credits by the Tax Reform Act of 1986. We also defer certain transitional credits earned after the repeal. We amortize these credits over the estimated service lives of the related assets as a reduction to the Provision for Income Taxes.

Stock-Based Compensation

Prior to 2003, we accounted for stock-based employee compensation under Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and followed the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123, using the prospective method (as permitted under SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure") to all new awards granted, modified or settled after January 1, 2003. Under the prospective method, employee compensation expense in the first year will be recognized for new awards granted, modified, or settled. The options generally vest over a term of three years, therefore the expenses related to stock-based employee compensation included in the determination of net income for 2005, 2004 and 2003 are less than what would have been recorded if the fair value method was also applied to previously issued awards (see Note 2 for additional information on the impact of adopting SFAS No. 123).

Foreign Currency Translation

The functional currency for all of our foreign operations is the local currency. For these foreign entities, we translate income statement amounts at average exchange rates for the period, and we translate assets and liabilities at end-of-period exchange rates. We record these translation adjustments in Accumulated Other Comprehensive Loss, a separate component of Shareowners' Investment, in our consolidated balance sheets. We report exchange gains and losses on intercompany foreign currency transactions of a long-term nature in Accumulated Other Comprehensive Loss. Other exchange gains and losses are reported in income.

Employee Benefit Plans

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

In December 2005, we announced that Verizon management employees will no longer earn pension benefits or

earn service towards the company retiree medical subsidy after June 30, 2006. See Note 15 for additional information.

Derivative Instruments

We have entered into derivative transactions to manage our exposure to fluctuations in foreign currency exchange rates, interest rates and equity prices. We employ risk management strategies using a variety of derivatives including foreign currency forwards and collars, equity options, interest rate swap agreements and interest rate locks. We do not hold derivatives for trading purposes.

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and related amendments and interpretations, we measure all derivatives, including derivatives embedded in other financial instruments, at fair value and recognize them as either assets or liabilities on our consolidated balance sheets. Changes in the fair values of derivative instruments not qualifying as hedges or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income (loss), and recognized in earnings when the hedged item is recognized in earnings.

Recent Accounting Pronouncements

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which revises SFAS No. 123. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense based on their fair value. Effective January 1, 2003, Verizon adopted the fair value recognition provisions of SFAS No. 123. We plan to adopt SFAS No. 123(R) effective January 1, 2006, using the modified prospective method and expect that any impact will not be material to our financial position or ongoing results of operations.

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Note 2

Accounting Change

Directory Accounting

Effective January 1, 2003, we changed our method for recognizing revenues and expenses in our directory business from the publication-date method to the amortization method. The cumulative effect of this accounting change resulted in a charge of \$2,697 million (\$1,647 million after-tax), recorded as of January 1, 2003.

Stock - Based Compensation

As discussed in Note 1, we adopted the fair value recognition provisions of SFAS No. 123 using the prospective method as permitted under SFAS No. 148. The following table illustrates the effect on reported net income and earnings per share if the fair value method had been applied to all outstanding and unvested options in each period.

--	--	--	--	--	--	--	--

(dollars in millions, except per share amounts)

Years Ended December 31,	2005			2004			
--------------------------	------	--	--	------	--	--	--

2003

Net Income, As Reported	\$ 7,397		\$		
7,831			\$ 3,077		
Add: Stock option-related employee compensation expense included in reported net income, net of related tax effects	57		53		
			44		
Deduct: Total stock option-related employee compensation expense determined under fair value based method for all awards, net of related tax effects	(57	)	(124		
	)		(215		
)				
Pro Forma Net Income	\$ 7,397		\$		
7,760			\$ 2,906		
Earnings Per Share					
Basic - as reported	\$ 2.67		\$		
2.83			\$ 1.12		
Basic - pro forma	2.67		2.80		
			1.05		
Diluted - as reported	2.65		2.79		
			1.12		
Diluted - pro forma	2.65		2.77		
			1.06		

After-tax compensation expense for other stock-based compensation included in net income as reported for the years ended December 31, 2005, 2004 and 2003 was \$370 million, \$254 million and \$80 million, respectively.

For additional information on assumptions used to determine the pro forma amounts as well as other information related to our stock-based compensation plans, see Note 14.

Asset Retirement Obligations

We adopted the provisions of SFAS No. 143 on January 1, 2003. SFAS No. 143 requires that companies recognize the fair value of a liability for asset retirement obligations in the period in which the obligations are incurred and capitalize that amount as part of the book value of the long-lived asset. We determined that Verizon does not have a material legal obligation to remove long-lived assets as described by this statement. However, prior to the adoption of SFAS No. 143, we included estimated removal costs in our group depreciation models. Consequently, in connection with the initial adoption of SFAS No. 143 we reversed accrued costs of removal in excess of salvage from our accumulated depreciation accounts for these assets. The adjustment was recorded as a cumulative effect of an accounting change, resulting in the recognition of a gain of \$3,499 million (\$2,150 million after-tax). Additionally, on December 31, 2005, FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143" became effective. There was no impact of the adoption of FIN No. 47 on Verizon's results of operations or financial position.

Note 3

Discontinued Operations and Sales of Businesses, Net

Discontinued Operations

Verizon Information Services Canada

During 2004, we announced our decision to sell Verizon Information Services Canada Inc. to an affiliate of Bain Capital, a global private investment firm, for \$1,540 million (Cdn. \$1,985 million). The sale closed during the fourth quarter of 2004 and resulted in a gain of \$1,017 million (\$516 million after-tax). In accordance with SFAS No. 144, we have classified the results of operations of Verizon Information Services Canada as discontinued operations in the consolidated statements of income in all years through the date of divestiture. Summarized results of operations for Verizon Information Services Canada are as follows:

(dollars in millions)			
Years Ended December 31,			
	2004		
	2003		
Income from operations of Verizon Information Services Canada before income taxes	\$		
99	\$ 88		
Gain on sale of investment	1,017		
	-		

Income tax provision				
		(546		
)		
		(39)		
Income on discontinued operations, net of tax		\$		
570				
		\$ 49		

Included in income from operations of Verizon Information Services Canada before income taxes in the preceding table are operating revenues of Verizon Information Services Canada prior to its sale in the fourth quarter of 2004 of \$280 million and \$284 million for the years ended December 31, 2004 and 2003, respectively.

Iusacell

Discontinued operations also include the results of operations of Grupo Iusacell, S.A. de C.V. (Iusacell) prior to the sale of Iusacell in July 2003. In connection with the decision to sell our interest in Iusacell and a comparison of expected sale proceeds, less cost to sell, to the net book value of our investment in Iusacell (including the foreign currency translation balance), we recorded a pretax loss of \$957 million (\$931 million after-tax) in the second quarter of 2003. This loss included \$317 million of goodwill.

Summarized results of operations for Iusacell, which was part of our International segment, follows:

			(dollars in millions)	
Year Ended December 31,	2003			
Loss from operations of Iusacell before income taxes	\$	-		
Investment loss	(957)		
Income tax benefit	22			
Loss on discontinued operations, net of tax	\$	(935)		

Included in loss from operations of Iusacell before income taxes in the preceding table are operating revenues of \$181 million for the year ended December 31, 2003.

Sales of Businesses, Net

Verizon Hawaii Inc.

During the second quarter of 2004, we entered into an agreement to sell our wireline and directory businesses in Hawaii, including Verizon Hawaii Inc. which operated approximately 700,000 switched access lines, as well as the services and assets of Verizon Long Distance, Verizon

Online, Verizon Information Services and Verizon Select Services Inc. in Hawaii, to an affiliate of The Carlyle Group. This transaction closed during the second quarter of 2005. In connection with this sale, we received net proceeds of \$1,326 million and recorded a net pretax gain of \$530 million (\$336 million after-tax). As a result of entering into the agreement to sell the Hawaii businesses, we separately classified the assets held for sale and

related liabilities in the December 31, 2004 condensed consolidated balance sheet. Additional detail related to the assets held for sale, and related liabilities, follows:

(dollars in millions)	
At December 31, 2004	
Current assets	\$ 109
Plant, property and equipment, net	820
Other non-current assets	21
Total assets	\$ 950
Debt maturing within one year	\$ 125
Other current liabilities	48
Long-term debt	302
Other non-current liabilities	50
Total liabilities	\$ 525

Other Transactions

In 2003, we recorded a net pretax gain of \$141 million (\$88 million after-tax) primarily related to the sale of our European directory publication operations in Austria, the Czech Republic, Gibraltar, Hungary, Poland and Slovakia.

Note 4

Other Strategic Actions

Facility and Employee-Related Items

During 2005, we recorded a net pretax gain of \$18 million (\$8 million after-tax) in connection with our planned relocation of several functions to Verizon Center, including a pretax gain of \$120 million (\$72 million after-tax) related to the sale of a New York City office building, partially offset by a pretax charge of \$102 million (\$64 million after-tax) primarily associated with relocation-related employee severance costs and related activities.

During 2005, we recorded a net pretax charge of \$98 million (\$59 million after-tax) related to the restructuring of the Verizon management retirement benefit plans. This pretax charge was recorded in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and includes the unamortized cost of prior pension enhancements of \$441 million offset partially by a pretax curtailment gain of \$343 million related to retiree medical benefits. In connection with this restructuring, management employees will no longer earn pension benefits or earn service towards the company retiree medical subsidy after June 30, 2006, after receiving an 18-month enhancement of the value of their pension and retiree medical subsidy, but will receive a higher savings plan matching contribution.

In addition, during 2005 we recorded a charge of \$59 million (\$36 million after-tax) associated with employee severance costs and severance-related activities in connection with the voluntary separation program for surplus union-represented employees.

During 2004, we recorded pretax pension settlement losses of \$815 million (\$499 million after-tax) related to employees that received lump-sum distributions during 2004 in connection with the voluntary separation plan

under which more than 21,000 employees accepted the separation offer in the fourth quarter of 2003. These charges were recorded in accordance with SFAS No. 88, which requires that settlement losses be recorded once prescribed payment thresholds have been reached.

Total pension, benefit and other costs related to severance activities were \$5,524 million (\$3,399 million after-tax) in 2003, primarily in connection with the voluntary separation of more than 25,000 employees, as follows:

• In connection with the voluntary separation of more than 21,000 employees during the fourth quarter of 2003, we recorded a pretax charge of \$4,695 million (\$2,882 million after-tax). This pretax charge included \$2,716 million recorded in accordance with SFAS No. 88 and SFAS No. 106, for pension and postretirement benefit enhancements and a net curtailment gain for a significant reduction of the expected years of future service resulting from early retirements. In addition, we recorded a pretax charge of \$76 million for pension settlement losses related to lump-sum settlements of some existing pension obligations. The fourth quarter pretax charge also included severance costs of \$1,720 million and costs related to other severance-related activities of \$183 million.

• We also recorded a special charge in 2003 of \$235 million (\$150 million after-tax) primarily associated with employee severance costs and severance-related activities in connection with the voluntary separation of approximately 4,000 employees. In addition, we recorded pretax pension settlement losses of \$131 million (\$81 million after-tax) in 2003 related to employees that received lump-sum distributions during the year in connection with previously announced employee separations.

• Further, in 2003 we recorded a special charge of \$463 million (\$286 million after-tax) in connection with enhanced pension benefits granted to employees retiring in the first half of 2003, estimated costs associated with the July 10, 2003 Verizon New York arbitration ruling and pension settlement losses related to lump-sum pay-outs in 2003. On July 10, 2003, an arbitrator ruled that Verizon New York's termination of 2,300 employees in 2002 was not permitted under a union contract; similar cases were pending impacting an additional 1,100 employees. Verizon offered to reinstate all 3,400 impacted employees, and accordingly, recorded a charge in the second quarter of 2003 representing estimated payments to employees and other related company-paid costs.

Tax Matters

During 2005, we recorded a tax benefit of \$336 million in connection with capital gains and prior year investment losses. As a result of the capital gain realized in 2005 in connection with the sale of our Hawaii businesses, we recorded a tax benefit of \$242 million related to prior year investment losses. The investment losses pertain to Iusacell, CTI Holdings, S.A. (CTI) and TelecomAsia.

Also during 2005, we recorded a net tax provision of \$206 million related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004, which provides for a favorable federal income tax rate in connection with the repatriation of foreign earnings, provided the criteria described in the law is met. Two of Verizon's foreign investments repatriated earnings resulting in income taxes of \$332 million, partially offset by a tax benefit of \$126 million.

As a result of the capital gain realized in 2004 in connection with the sale of Verizon Information Services Canada, we recorded tax benefits of \$234 million in the fourth quarter of 2004 pertaining to prior year investment impairments. The investment impairments primarily related to debt and equity investments in CTI, Cable & Wireless plc and NTL Incorporated.

Other Charges and Special Items

During 2005, we recorded pretax charges of \$139 million (\$133 million after-tax) including a pretax impairment charge of \$125 million (\$125 million after-tax) pertaining to our leasing operations for aircraft leases involved in recent airline bankruptcy proceedings and a pretax charge of \$14 million (\$8 million after-tax) in connection with the early retirement of debt.

In 2004, we recorded an expense credit of \$204 million (\$123 million after-tax) resulting from the favorable resolution of pre-bankruptcy amounts due from MCI. Previously reached settlement agreements became fully effective when MCI emerged from bankruptcy proceedings in the second quarter of 2004.

Also during 2004, we recorded a charge of \$113 million (\$87 million after-tax) related to operating asset losses pertaining to our international long distance and data network. In addition, we recorded pretax charges of \$55 million (\$34 million after-tax) in connection with the early retirement of debt.

During 2003, we recorded other special pretax charges of \$557 million (\$419 million after-tax). These charges included \$240 million (\$156 million after-tax) primarily in connection with environmental remediation efforts relating to several discontinued businesses, including a former facility that processed nuclear fuel rods in Hicksville, New York (see Note 22) and a pretax impairment charge of \$184 million (\$184 million after-tax) pertaining to our leasing operations for airplanes leased to airlines experiencing financial difficulties and for power generating facilities. These 2003 charges also include pretax charges of \$61 million (\$38 million after-tax) related to the early retirement of debt and other pretax charges of \$72 million (\$41 million after-tax).

Note 5

Marketable Securities and Other Investments

We have investments in marketable securities which are considered "available-for-sale" under SFAS No. 115. These investments have been included in our consolidated balance sheets in Investments in Unconsolidated Businesses and Other Assets.

Under SFAS No. 115, available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses (net of income taxes) that are considered temporary in nature recorded in Accumulated Other Comprehensive Loss. The fair values of our investments in marketable securities are determined based on market quotations. We continually evaluate our investments in marketable securities for impairment due to declines in market value considered to be other than temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other than temporary, a charge to earnings is recorded in Income From Other Unconsolidated Businesses in the consolidated statements of income for all or a portion of the unrealized loss, and a new cost basis in the investment is established. As of December 31, 2005, no impairments were determined to exist.

The following table shows certain summarized information related to our investments in marketable securities:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2005				
Investments in unconsolidated businesses	\$ 215	\$ 13	\$ (3)	

	)	\$ 225				
Other assets		225	14	-		
			239			
		\$ 440	\$ 27	\$ (3)		
	)	\$ 464				
At December 31, 2004						
Investments in unconsolidated businesses		\$ 184	\$ 7	\$ (4)		
	)	\$ 187				
Other assets		149	40	-		
			189			
		\$ 333	\$ 47	\$ (4)		
	)	\$ 376				

Our investments in marketable securities are primarily bonds and mutual funds.

On April 9, 2005, Verizon entered into a stock purchase agreement with eight entities affiliated with Carlos Slim Helu to purchase 43.4 million shares of MCI common stock for \$25.72 per share in cash plus an additional cash amount of 3% per annum from April 9, 2005 until the closing of the purchase of those shares. The transaction closed on May 17, 2005 and the additional cash payment was made through May 13, 2005. The total cash payment was \$1,121 million. Under the stock purchase agreement, Verizon will pay the Slim entities an adjustment at the end of one year in an amount per MCI share calculated by multiplying (i) .7241 by (ii) the amount, if any, by which the price of Verizon's common stock exceeds \$35.52 per share (measured over a 20-day period), subject to a maximum excess amount per Verizon share of \$26.98. After the closing of the stock purchase agreement, Verizon transferred the shares of MCI common stock it had purchased to a trust established pursuant to an agreement between Verizon and the Department of Justice. We received the special dividend of \$5.60 per MCI share on these 43.4 million MCI shares, or \$243 million, on October 27, 2005. See Note 24 for additional information about the MCI merger.

During 2004, we sold all of our investment in Iowa Telecom preferred stock, which resulted in a pretax gain of \$43 million (\$43 million after-tax) included in Income From Other Unconsolidated Businesses in the consolidated statements of income. The preferred stock was received in 2000 in connection with the sale of access lines in Iowa.

Certain other investments in securities that we hold are not adjusted to market values because those values are not readily determinable and/or the securities are not marketable. We have, however, adjusted the carrying values of these securities in situations where we believe declines in value below cost were other than temporary. During 2003, we recorded a net pretax gain of \$176 million as a result of a payment received in connection with the liquidation of Genuity, Inc. In connection with this payment, Verizon recorded a contribution of \$150 million to Verizon Foundation to fund its charitable activities and increase its self-sufficiency. Consequently, we recorded a net gain of \$17 million after taxes related to this transaction and the accrual of the Verizon Foundation contribution. The carrying values for investments not adjusted to market value were \$5 million at December 31, 2005 and \$52 million at December 31, 2004.

Note 6

Plant, Property and Equipment

The following table displays the details of plant, property and equipment, which is stated at cost:

--	--	--	--	--	--	--

	(dollars in		
millions)			
At December 31,	2005		2004
Land	\$ 753		\$
772			
Buildings and equipment	16,800		16,159
Network equipment	156,719		149,261
Furniture, office and data processing equipment	12,929		13,064
Work in progress	1,651		1,719
Leasehold improvements	2,373		1,948
Other	2,385		2,599
	193,610		185,522
Accumulated depreciation	(118,305	)	(111,398
)	
Total	\$ 75,305		\$
74,124			

Note 7

Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill are as follows:

	(dollars in millions)		
	Domestic	Telecom	
	Information Services		
	International		Total
Balance at December 31, 2003	\$ 314	\$ 77	\$
444		\$ 835	
Goodwill reclassifications and other	1	-	1
		2	
Balance at December 31, 2004	315	77	
	445	837	
Goodwill reclassifications and other	-	-	(1
	)	(1))
Balance at December 31, 2005	\$ 315	\$ 77	\$
444		\$ 836	

Other Intangible Assets

	(dollars in millions)		
	At December 31, 2005		At
	Gross Carrying Amount		
	Accumulated Amortization		
	Gross Carrying Amount		Accumulated
Amortization			
Amortized intangible assets:			
Customer lists (1 to 7 years)	\$ 3,452	\$ 3,295	\$
3,444	\$ 2,832		
Non-network internal-use software (1 to 7 years)	7,504	3,427	
	6,866	2,997	
Other (1 to 20 years)	83	24	62
	22		
Total	\$ 11,039	\$ 6,746	\$
10,372	\$ 5,851		
Unamortized intangible assets:			
Wireless licenses	\$ 47,804		\$

42,090

Intangible asset amortization expense was \$1,528 million, \$1,402 million, and \$1,397 million for the years ended December 31, 2005, 2004 and 2003, respectively. It is estimated to be \$1,183 million in 2006, \$868 million in 2007, \$702 million in 2008, \$565 million in 2009 and \$349 million in 2010, primarily related to customer lists and non-network internal-use software.

Note 8

Investments in Unconsolidated Businesses

Our investments in unconsolidated businesses are comprised of the following:

		2005		2004	
		Ownership		Investment	
		Ownership		Investment	
Equity Investees					
CANTV		28.5	%	\$	
152		28.5	%	\$	
199					
Vodafone Omnitel		23.1		2,591	
		23.1		4,642	
Other		Various		772	
		Various		876	
Total equity investees				3,515	
				5,717	
Cost Investees					
		Various		1,089	
		Various		138	
Total investments in unconsolidated businesses				\$ 4,604	
				\$ 5,855	

Dividends and repatriations of foreign earnings received from investees amounted to \$2,336 million in 2005, \$162 million in 2004 and \$198 million in 2003, respectively, and are reported in Other, Net operating activities in the consolidated statements of cash flows.

Equity Investees

CANTV

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) is Venezuela's largest full-service telecommunications provider. CANTV offers local services, national and international long distance, Internet

access and wireless services in Venezuela as well as public telephone, private network, data transmission, directory and other value-added services.

Vodafone Omnitel

Vodafone Omnitel N.V. (Vodafone Omnitel) is an Italian digital cellular telecommunications company. It is the second largest wireless provider in Italy. At December 31, 2005 and 2004, our investment in Vodafone Omnitel included goodwill of \$937 million and \$1,072 million, respectively.

During 2005, we repatriated \$2,202 million of Vodafone Omnitel's earnings through the repurchase of issued and outstanding shares of its equity. Vodafone Omnitel's owners, Verizon and Vodafone Group Plc (Vodafone), participated on a pro rata basis; consequently, Verizon's ownership interest after the share repurchase remained at 23.1%.

TELUS

TELUS Corporation (TELUS) is a full-service telecommunications provider and provides subscribers with a full range of telecommunications products and services including data, voice and wireless services across Canada.

During the fourth quarter of 2004, we recorded a pretax gain of \$787 million (\$565 million after-tax) on the sale of our 20.5% interest in TELUS in an underwritten public offering in the U.S. and Canada. In connection with this sale transaction, Verizon recorded a contribution of \$100 million to Verizon Foundation to fund its charitable activities and increase its self-sufficiency. Consequently, we recorded a net gain of \$500 million after taxes related to this transaction and the accrual of the Verizon Foundation contribution.

Other Equity Investees

Verizon has limited partnership investments in entities that invest in affordable housing projects, for which Verizon provides funding as a limited partner and receives tax deductions and tax credits based on its partnership interests. At December 31, 2005 and 2004, Verizon had equity investments in these partnerships of \$652 million and \$755 million, respectively. Verizon currently adjusts the carrying value of these investments for any losses incurred by the limited partnerships through earnings.

During 2003, we recorded a pretax gain of \$348 million on the sale of our interest in Eurotel Praha, spol. s r.o. In connection with this sale transaction, Verizon recorded a contribution of \$150 million to Verizon Foundation to fund its charitable activities and increase its self-sufficiency. Consequently, we recorded a net gain of \$27 million after taxes related to this transaction and the accrual of the Verizon Foundation contribution.

The remaining investments include wireless partnerships in the U.S., and several other domestic and international investments.

Cost Investees

Some of our cost investments are carried at their current market value. Other cost investments are carried at their original cost, except in cases where we have determined that a decline in the estimated market value of an investment is other than temporary as described in Note 5. Our cost investments include a variety of domestic and international investments primarily involved in providing telecommunication services.

The increase in our cost investments in unconsolidated businesses is primarily the result of the purchase of 43.4 million shares of MCI common stock from eight entities affiliated with Carlos Slim Helu (see Note 5).

Note 9

Minority Interest

Minority interests in equity of subsidiaries were as follows:

			(dolla	
rs in millions)				
At December 31,				
			2005	
			2004	
Minority interests in consolidated subsidiaries*:				
Wireless joint venture (55%)			\$	
24,683			\$	
23,034				
Cellular partnerships and other (various)			1,65	
2			1,58	
4				
TELPRI (52%)			319	
			335	
Preferred securities issued by subsidiaries			100	
			100	
			\$	
26,754			\$	
25,053				
* Indicated ownership percentages are Verizon's consolidated interests.				

Wireless Joint Venture

The wireless joint venture was formed in April 2000 in connection with the combination of the U.S. wireless operations and interests of Verizon and Vodafone. The wireless joint venture operates as Verizon Wireless. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%.

Under the terms of an investment agreement, Vodafone may require Verizon Wireless to purchase up to an aggregate of \$20 billion worth of Vodafone's interest in Verizon Wireless at designated times at its then fair market value. In the event Vodafone exercises its put rights, we have the right, exercisable at our sole discretion, to purchase up to \$12.5 billion of Vodafone's interest instead of Verizon Wireless for cash or Verizon stock at our option. Vodafone had the right to require the purchase of up to \$10 billion during the 61-day period opening on June 10 and closing on August 9 in 2005, and did not exercise that right. As a result, Vodafone still has the right to require the purchase of up to \$20

billion worth of its interest, not to exceed \$10 billion in any one year, during a 61-day period opening on June 10 and closing on August 9 in 2006 and 2007. Vodafone also may require that Verizon Wireless pay for up to \$7.5 billion of the required repurchase through the assumption or incurrence of debt.

Cellular Partnerships and Other

In August 2002, Verizon Wireless and Price Communications Corp. (Price) combined Price's wireless business with a portion of Verizon Wireless in a transaction valued at approximately \$1.7 billion, including \$550 million of net debt. The resulting limited partnership is controlled and managed by Verizon Wireless. In exchange for its contributed assets, Price received a limited partnership interest in the new partnership which is exchangeable into common stock of Verizon Wireless if an initial public offering of that stock occurs, or into the common stock of Verizon on the fourth anniversary of the asset contribution date if the initial public offering of Verizon Wireless common stock does not occur prior to then. The price of the Verizon common stock used in determining the number of Verizon common shares received in an exchange is also subject to a maximum and minimum amount.

TELPRI

Telecomunicaciones de Puerto Rico, Inc. (TELPRI) provides local, wireless, long distance, paging and Internet-access services in Puerto Rico.

Preferred Securities Issued By Subsidiaries

On December 7, 2005, Verizon issued a notice to redeem \$100 million Verizon International Holdings Ltd. Series A variable term voting cumulative preferred stock on January 15, 2006 at the redemption price per share of \$100,000, plus accrued and unpaid dividends.

Note 10

Leasing Arrangements

As Lessor

We are the lessor in leveraged and direct financing lease agreements under which commercial aircraft and power generating facilities, which comprise the majority of the portfolio, along with industrial equipment, real estate property, telecommunications and other equipment are leased for remaining terms of less than 1 year to 50 years as of December 31, 2005. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which holds a senior security interest in the leased equipment and rentals, the related principal and interest

have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets. See Note 4 for information on lease impairment charges.

Finance lease receivables, which are included in Prepaid Expenses and Other and Other Assets in our consolidated balance sheets are comprised of the following:

	2005		2004	
	Leveraged Leases	Direct Finance Leases	Total	
	Leveraged Leases		Direct Finance Leases	
	Total			
Minimum lease payments receivable	\$ 3,847	\$ 123	\$ 3,970	\$ 4,133
	\$ 173	\$ 4,306		
Estimated residual value	1,937	9	1,946	2,319
	15	2,334		
Unearned income	(2,260)	(11)	(2,271)	(2,631)
	(19)	(2,650)		
	\$ 3,524	\$ 121	3,645	\$ 3,821
	\$ 169	3,990		
Allowance for doubtful accounts		(375)		
		(326)		
Finance lease receivables, net		\$ 3,270		
		\$ 3,664		
Current		\$ 30		
		\$ 43		
Noncurrent		\$ 3,240		
		\$ 3,621		

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred Income Taxes, amounted to \$3,049 million at December 31, 2005 and \$3,226 million at December 31, 2004.

The following table is a summary of the components of income from leveraged leases:

	2005		2004	
	2005		2004	
	2005		2004	
	2005		2004	
Pretax lease income	\$ 119		\$ 63	\$ 108

Income tax expense/(benefit)	(25)				
	(52)				
	11				
Investment tax credits	4				
	3		3		

The future minimum lease payments to be received from noncancelable leases, net of nonrecourse loan payments related to leveraged and direct financing leases in excess of debt service requirements, for the periods shown at December 31, 2005, are as follows:

(dollars in millions)				
Years		Capital Leases		
		Operating Leases		
2006		\$ 103		
		\$ 22		
2007		122		
	7			
2008		128		
	4			
2009		187		
	6			
2010		161		
	2			
Thereafter		3,269		
		-		
Total		\$ 3,970		
		\$ 41		

As Lessee

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense from continuing operations under operating leases amounted to \$1,532 million in 2005, \$1,347 million in 2004 and \$1,334 million in 2003.

Capital lease amounts included in plant, property and equipment are as follows:

(dollars in millions)				
At December 31,	2005	2004		
Capital leases	\$ 313	\$ 596		

Accumulated amortization	(137)	(412)			
Total	\$ 176	\$ 184			

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2005, are as follows:

(dollars in millions)					
Years			Capital Leases		
			Operating		
Leases					
2006			\$ 37		
				\$ 1,184	
2007			28		
				791	
2008			21		
				652	
2009			13		
				504	
2010			12		
				316	
Thereafter			55		
				1,050	
Total minimum rental commitments			166		
				\$ 4,497	
Less interest and executory costs			(54)		
Present value of minimum lease payments			112		
Less current installments			(17)		
Long-term obligation at December 31, 2005			\$ 95		

As of December 31, 2005, the total minimum sublease rentals to be received in the future under noncancelable operating and capital subleases were \$46 million and \$1 million, respectively.

Note 11
Debt

Debt Maturing Within One Year

Debt maturing within one year is as follows:

--	--	--	--

(dollars in millions)

At December 31,

--	--	--	--

2005

2004

Long-term debt maturing within one year

--	--	--	--

\$ 4,926

\$ 3,569

Commercial paper

--	--	--	--

2,204

-

Other short-term debt

--	--	--	--

11

24

Total debt maturing within one year

--	--	--	--

\$ 7,141

\$ 3,593

The weighted average interest rate for our commercial paper at year-end December 31, 2005 was 4.3%. There was no commercial paper outstanding at December 31, 2004.

Capital expenditures (primarily construction of telephone plant) are partially financed, pending long-term financing, through bank loans and the issuance of commercial paper payable within 12 months.

At December 31, 2005, we had approximately \$6.7 billion of unused bank lines of credit. Certain of these lines of credit contain requirements for the payment of commitment fees.

Long-Term Debt

Outstanding long-term debt obligations are as follows:

				(dollars in millions)			
At December 31,	Interest Rates %	Maturities	2005				
		2004					
Notes payable	4.00 - 8.61	2006 - 2035	\$				
16,310			\$ 17,481				
Telephone subsidiaries - debentures and first/refunding mortgage bonds		4.63 - 7.00					
	2006 - 2042	11,869					
	12,958						
	7.15 - 7.65	2007 - 2032					
	1,725					1,825	
	7.85 - 9.67	2010 - 2031					
	1,926					1,930	
Other subsidiaries - debentures and other	4.25 - 8.75	2006 - 2028					
	3,410					3,480	
Zero-coupon convertible notes, net of unamortized discount of \$790 and \$830		3.18					
	2021	1,360					
	1,320						
Employee stock ownership plan loans:							
NYNEX debentures	9.55	2010	113				
		145					
Capital lease obligations (average rate 11.9% and 9.4%)			112				
		138					
Property sale holdbacks held in escrow, vendor financing and other	3.00 - 3.25	2006 - 2009	13				
		21					
Unamortized discount, net of premium			(43)				
	)	(55))				
Total long-term debt, including current maturities							
	36,795					39,243	

Less: debt maturing within one year									
		(4,926	)			(3,569			
)							
Total long-term debt						\$			
31,869						\$ 35,674			

Telephone Subsidiaries' Debt

Our first mortgage bonds of \$172 million are secured by certain telephone operations assets.

See Note 21 for additional information about guarantees of operating subsidiary debt.

Zero-Coupon Convertible Notes

In May 2001, Verizon Global Funding Corp. (Verizon Global Funding) issued approximately \$5.4 billion in principal amount at maturity of zero-coupon convertible notes due 2021, resulting in gross proceeds of approximately \$3 billion. The notes are convertible into shares of our common stock at an initial price of \$69.50 per share if the closing price of Verizon common stock on the New York Stock Exchange exceeds specified levels or in other specified circumstances. The conversion price increases by at least 3% a year. The initial conversion price represents a 25% premium over the May 8, 2001 closing price of \$55.60 per share. The zero-coupon convertible notes are callable by Verizon Global Funding on or after May 15, 2006. In addition, the notes are redeemable at the option of the holders on May 15th in each of the years 2004, 2006, 2011 and 2016. On May 15, 2004, \$3,292 million of principal amount of the notes (\$1,984 million after unamortized discount) were redeemed by Verizon Global Funding. As of December 31, 2005, the remaining zero-coupon convertible notes were classified as debt maturing within one year since they are redeemable at the option of the holders on May 15, 2006.

Support Agreements

All of Verizon Global Funding's debt has the benefit of Support Agreements between us and Verizon Global Funding, which give holders of Verizon Global Funding debt the right to proceed directly against us for payment of interest, premium (if any) and principal outstanding should Verizon Global Funding fail to pay. The holders of Verizon Global Funding debt do not have recourse to the stock or assets of most of our telephone operations; however, they do have recourse to dividends paid to us by any of our consolidated subsidiaries as well as assets not covered by the exclusion. Verizon Global Funding's long-term debt, including current portion, aggregated \$14,152 million at December 31, 2005. The carrying value of the available assets reflected in our consolidated balance sheets was approximately \$63.9 billion at December 31, 2005.

Verizon and NYNEX Corporation are the joint and several co-obligors of the 20-Year 9.55% Debentures due 2010 previously issued by NYNEX on March 26, 1990. As of December 31, 2005, \$113 million principal amount of this obligation remained outstanding. In addition, Verizon Global Funding has guaranteed the debt obligations of GTE Corporation (but not the debt of its subsidiary or affiliate companies) that were issued and outstanding prior to July 1, 2003. As of December 31, 2005, \$3,400 million principal amount of these obligations remained outstanding. NYNEX and GTE no longer issue public debt or file SEC reports. See Note 21 for information on guarantees of operating subsidiary debt listed on the New York Stock Exchange.

On February 1, 2006, Verizon announced the merger of Verizon Global Funding into Verizon.

Debt Covenants

We and our consolidated subsidiaries are in compliance with all of our debt covenants.

Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2005 are \$4.9 billion in 2006, \$4.7 billion in 2007, \$2.5 billion in 2008, \$1.7 billion in 2009, \$2.8 billion in 2010 and \$20.2 billion thereafter. These amounts include the debt, redeemable at the option of the holder, at the earliest redemption dates.

Note 12

Financial Instruments

Derivatives

The ongoing effect of SFAS No. 133 and related amendments and interpretations on our consolidated financial statements will be determined each period by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the end of each period.

Interest Rate Risk Management

We have entered into domestic interest rate swaps, to achieve a targeted mix of fixed and variable rate debt, where we principally receive fixed rates and pay variable rates based on LIBOR. These swaps hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value in our balance sheet as assets and liabilities and adjust debt for the change in its fair value due to changes in interest rates. The ineffective portions of these hedges were recorded as gains in the consolidated statements of income of \$4 million and \$2 million for the years ended December 31, 2004 and 2003, respectively. During 2005, we entered into interest rate derivatives to limit our exposure to interest rate changes. In accordance with the provisions of SFAS No. 133, changes in fair value of these cash flow hedges due to interest rate fluctuations are recognized in Accumulated Other Comprehensive Loss. As of December 31, 2005, we have recorded unrealized gains of \$5 million in Other Comprehensive Income (Loss) related to these interest rate cash flow hedges.

Foreign Exchange Risk Management

Our foreign exchange risk management includes the use of foreign currency forward contracts and cross currency interest rate swaps with foreign currency forwards. These contracts are typically used to hedge short-term foreign currency transactions and commitments, or to offset foreign exchange gains or losses on the foreign currency obligations and are designated as cash flow hedges. There were no foreign currency contracts outstanding as of December 31, 2005. We record these contracts at fair value as assets or liabilities and the related gains or losses are deferred in shareowners' investment as a component of Other Comprehensive Income (Loss). We have recorded net gains of \$17 million and losses of \$21 million in Other Comprehensive Income (Loss) for the years ended December 31, 2004 and 2003, respectively.

Net Investment Hedges

During 2005, we entered into zero cost euro collars to hedge a portion of our net investment in Vodafone Omnitel. In accordance with the provisions of SFAS No. 133 and related amendments and interpretations, changes in fair value of these contracts due to exchange rate fluctuations are recognized in Accumulated Other Comprehensive Loss and offset the impact of foreign currency changes on the value of our net investment in the operation being hedged. As of December 31, 2005, our positions in the zero cost euro collars have been settled. As of December 31, 2005, we have recorded unrealized gains of \$2 million in Accumulated Other Comprehensive Loss related to these hedge contracts.

During 2004, we entered into foreign currency forward contracts to hedge our net investment in our Canadian operations and investments. In accordance with the provisions of SFAS No. 133, changes in the fair value of these contracts due to exchange rate fluctuations were recognized in Accumulated Other Comprehensive Loss and offset

the impact of foreign currency changes on the value of our net investment in the operations being hedged. During 2004, we sold our Canadian operations and investments. Accordingly, the unrealized losses on these net investment hedge contracts were realized in net income along with the corresponding foreign currency translation balance. We recorded realized losses of \$106 million (\$58 million after-tax) related to these hedge contracts.

Other Derivatives

On May 17, 2005, we purchased 43.4 million shares of MCI common stock under a stock purchase agreement that contained a provision for the payment of an additional cash amount determined immediately prior to April 9, 2006 based on the market price of Verizon's common stock (see Note 5). Under SFAS No. 133, this additional cash payment is an embedded derivative which we carry at fair value and is subject to changes in the market price of Verizon stock. Since this derivative does not qualify for hedge accounting under SFAS No. 133, changes in its fair value are recorded in the consolidated statements of income in Other Income and (Expense), Net. During 2005, we recorded pretax income of \$57 million in connection with this embedded derivative.

In addition, we previously entered into several other contracts and similar arrangements that require fair value accounting under the provisions of SFAS No. 133 and related amendments and interpretations. We recorded charges of \$3 million, gains of \$4 million and charges of \$13 million as mark-to-market adjustments related to these instruments for the years ended December 31, 2005, 2004 and 2003, respectively.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, short-term and long-term investments, trade receivables, certain notes receivable including lease receivables, preferred stock and derivative contracts. Our policy is to deposit our temporary cash investments with major financial institutions. Counterparties to our derivative contracts are also major financial institutions and organized exchanges. The financial institutions have all been accorded high ratings by primary rating agencies. We limit the dollar amount of contracts entered into with any one financial institution and monitor our counterparties' credit ratings. We generally do not give or receive collateral on swap agreements due to our credit rating and those of our counterparties. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial condition.

Fair Values of Financial Instruments

The tables that follow provide additional information about our significant financial instruments:

Financial Instrument	Valuation Method
Cash and cash equivalents and short-term investments	Carrying amounts
Short- and long-term debt (excluding capital leases) maturities or future cash flows discounted at current rates	Market quotes for similar terms and
Cost investments in unconsolidated businesses, derivative assets and liabilities and notes receivable	Future cash flows discounted at current rates, market quotes for similar instruments or other valuation models

	(dollars in millions)		
At December 31,	2005		
	2004		
	Carrying Amount	Fair	
Value	Carrying Amount	Fair	
Value			
Short- and long-term debt	\$ 38,898	\$ 40,313	
	\$ 39,129	\$ 42,231	
Cost investments in unconsolidated businesses	1,089	1,089	
	138	138	
Short- and long-term derivative assets	62	62	
	127	127	
Notes receivable, net	80	80	
	81	81	
Short- and long-term derivative liabilities	22	22	3
	3		

Note 13

Earnings Per Share and Shareowners' Investment

Earnings Per Share

The following table is a reconciliation of the numerators and denominators used in computing earnings per common share:

	2005		
Years Ended December 31,	2004		
	2003		
Net Income Used For Basic Earnings Per Common Share			
Income before discontinued operations and cumulative effect of accounting change	\$ 7,397	\$	
7,261	\$ 3,460		
Income (loss) on discontinued operations, net of tax	-		
	570		
	(886)	
Cumulative effect of accounting change, net of tax	-	-	
	503		
Net income	\$ 7,397	\$	
7,831	\$ 3,077		
Net Income Used For Diluted Earnings Per Common Share			

Income before discontinued operations and cumulative effect of accounting change	\$ 7,397	\$		
7,261	\$ 3,460			
After-tax minority interest expense related to exchangeable equity interest	32	27		
	21			
After-tax interest expense related to zero-coupon convertible notes	28	41		
	61			
Income before discontinued operations and cumulative effect of accounting change - after assumed conversion of dilutive securities	7,457			
	7,329			
	3,542			
Income (loss) on discontinued operations, net of tax	-			
	570			
	(886)		
Cumulative effect of accounting change, net of tax	-	-		
	503			
Net income - after assumed conversion of dilutive securities	\$ 7,457	\$		
7,899	\$ 3,159			
Basic Earnings Per Common Share				
Weighted-average shares outstanding - basic	2,766			
	2,770			
	2,756			
Income before discontinued operations and cumulative effect of accounting change	\$ 2.67	\$		
2.62	\$ 1.26			
Income (loss) on discontinued operations, net of tax	-	.21		
	(.32)		
Cumulative effect of accounting change, net of tax	-	-		
	.18			
Net income	\$ 2.67	\$		
2.83	\$ 1.12			
Diluted Earnings Per Common Share ^(a)				
Weighted-average shares outstanding	2,766			
	2,770			
	2,756			
Effect of dilutive securities:				
Stock options	5	5		
	5			
Exchangeable equity interest	29	29		
	28			
Zero-coupon convertible notes	17	27		
	43			
Weighted-average shares - diluted	2,817			
	2,831			

					2,832
Income before discontinued operations and cumulative effect of accounting change	\$	2.65	\$		
2.59	\$	1.25			
Income (loss) on discontinued operations, net of tax	-		.20		
		(.31)		
Cumulative effect of accounting change, net of tax	-		-		
		.18			
Net income	\$	2.65	\$		
2.79	\$	1.12			
(1)	Total per share amounts may not add due to rounding.				

Certain outstanding options to purchase shares were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the period, including approximately 242 million shares during 2005, 253 million shares during 2004 and 248 million shares during 2003.

The diluted earnings per share calculation considers the assumed conversion of an exchangeable equity interest (see Note 9) and Verizon's zero-coupon convertible notes (see Note 11).

Shareowners' Investment

Our certificate of incorporation provides authority for the issuance of up to 250 million shares of Series Preferred Stock, \$.10 par value, in one or more series, with such designations, preferences, rights, qualifications, limitations and restrictions as the Board of Directors may determine.

We are authorized to issue up to 4.25 billion shares of common stock.

On January 22, 2004, the Board of Directors authorized the repurchase of up to 80 million common shares terminating no later than the close of business on February 28, 2006. We repurchased 7.9 million and 9.5 million common shares during 2005 and 2004, respectively.

On January 19, 2006, the Board of Directors authorized the repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2008. The Board of Directors also determined that no additional common shares may be purchased under the previous program.

Note 14

Stock Incentive Plans

We determined stock-option related employee compensation expense for 2004 and 2003 using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

	2004		2003	
Dividend yield	4.2	%	4.0	%
Expected volatility		31.3		30.9
Risk-free interest rate		3.3		3.4
Expected lives (in years)		6		6

We did not grant options during 2005.

The weighted-average value of options granted during 2004 and 2003 was \$7.88 and \$8.41, respectively. Our stock incentive plans are described below:

Fixed Stock Option Plans

We have fixed stock option plans for substantially all employees. Options to purchase common stock were granted at a price equal to the market price of the stock at the date of grant. The options generally vest over three years and have a maximum term of ten years.

This table summarizes our fixed stock option plans:

	Stock Options			
(in thousands)		Weighted-		
Average Exercise Price				
Outstanding, January 1, 2003	261,437			
		\$ 48.32		
Granted	22,207			
		38.94		
Exercised	(4,634			
	)	31.29		
Canceled/forfeited	(7,917			
	)	47.87		
Outstanding, December 31, 2003	271,093			
		47.86		
Granted	16,824			
		36.75		
Exercised	(10,163			
	)	29.90		
Canceled/forfeited	(6,364			
	)	49.69		
Outstanding, December 31, 2004	271,390			
		47.80		
Granted	-			
		-		

Exercised	(1,095			
	)	29.74		
Canceled/forfeited	(19,319			
	)	51.36		
Outstanding, December 31, 2005	250,976			
		47.62		
Options exercisable, December 31,				
2003	233,374			
		48.27		
2004	239,093			
		48.91		
2005	236,158			
		48.27		

The following table summarizes information about fixed stock options outstanding as of December 31, 2005:

Stock Options Outstanding					Stock Options	
Exercisable						
Range of Exercise Prices	Shares (in thousands)	Weighted-Average Remaining Life			Weighted-Average	
Exercise Price	Shares (in thousands)	Weighted-Average Exercise Price				
\$20.00 - 29.99	32	6.74	years	\$ 27.25	32	
	\$ 27.25					
30.00 - 39.99	56,085	5.24		36.73	41,281	
	36.52					
40.00 - 49.99	98,448	4.65		45.33	98,435	
	45.33					
50.00 - 59.99	95,087	4.11		56.22	95,086	
	56.22					
60.00 - 69.99	1,324	3.79		62.11	1,324	
	62.11					
Total	250,976	4.57		47.62	236,158	
	48.27					

Performance-Based Shares

In 2005, stock compensation awards consisted of performance-based stock units and restricted stock units that vest

At December 31,	2005	2004	2005
	2004		
Change in Benefit Obligation			
Beginning of year	\$ 37,395	\$ 40,968	\$ 27,077
		\$ 24,581	
Service cost	721	712	373
	282		
Interest cost	2,070	2,289	1,519
	1,479		
Plan amendments	181	(65)	59
	248		
Actuarial loss, net	390	2,467	520
	2,017		
Benefits paid	(2,977)	(2,884)	(1,706)
	(1,532)		
Termination benefits	11	4	1
	2		
Settlements	(35)	(6,105)	-
	-		
Acquisitions and divestitures, net	(194)	-	(34)
	-		
Other	(1)	9	-
	-		
End of year	37,561	37,395	27,809
	27,077		
Change in Plan Assets			
Beginning of year	39,106	42,776	4,549
	4,467		
Actual return on plan assets	4,246	4,874	348
	471		
Company contributions	852	443	1,085
	1,143		
Benefits paid	(2,977)	(2,884)	(1,706)
	(1,532)		
Settlements	(35)	(6,105)	-
	-		
Acquisitions and divestitures, net	(202)	2	-
	-		
End of year	40,990	39,106	4,276
	4,549		
Funded Status			

End of year	3,429	1,711	(23,533)
	(22,528)		
Unrecognized			
Actuarial loss, net	4,761	5,486	7,585
	7,335		
Prior service cost	1,075	1,387	4,310
	4,193		
Transition obligation	1	1	16
	18		
Net amount recognized	\$ 9,266	\$ 8,585	\$ (11,622
	)	\$ (10,982)
Amounts recognized on the balance sheet			
Prepaid pension cost (in Other Assets)	\$ 12,704	\$ 12,302	\$ -
		\$ -	
Assets held for sale	-	1	-
	-		
Other assets	478	463	-
	-		
Employee benefit obligation	(5,473)	(5,774)	(11,622)
	(10,953)		
Liabilities related to assets held for sale	-	-	-
	(29)		
Minority interest	168	145	-
	-		
Accumulated other comprehensive loss	1,389	1,448	-
	-		
Net amount recognized	\$ 9,266	\$ 8,585	\$ (11,622
	)	\$ (10,982)

Changes in benefit obligations were caused by factors including changes in actuarial assumptions (see Assumptions below), curtailments and settlements.

In 2005 as a result of our announcement regarding management retiree benefits, we recorded pre-tax expense of \$441 million for pension curtailments and pre-tax income of \$343 million for retiree medical curtailments (see Note 4 for additional information).

Verizon's union contracts contain health care cost provisions that limit company payments toward health care costs to specific dollar amounts (known as caps). These caps pertain to both current and future retirees, and have a significant impact on the actuarial valuation of postretirement benefits. These caps have been included in union contracts for several years, but have exceeded the annual health care cost every year until 2003. During the negotiation of new collective bargaining agreements for union contracts covering 79,000 unionized employees in the second half of 2003, the date health care caps would become effective was extended and the dollar amounts of the caps were increased. In the fourth quarter of 2003, we began recording retiree health care costs as if there were no caps, in connection with the ratification of the union contracts. Since the caps are an assumption included in the

Years Ended December 31,	2005	2004	2003	2005	2004
		2003			
Service cost	\$ 721	\$ 712	\$ 785	\$ 373	\$
282		\$ 176			
Interest cost	2,070	2,289	2,436	1,519	1,479
		1,203			
Expected return on plan assets	(3,348)	(3,709)	(4,150)	(353)	(414)
)		(430))		
Amortization of transition asset	-	(4)	(41)	2	2
		2			
Amortization of prior service cost	45	60	23	285	234
		(9)			
Actuarial loss (gain), net	146	57	(337)	278	187
		130			
Net periodic benefit (income) cost	(366)	(595)	(1,284)	2,104	1,770
		1,072			
Termination benefits	3	4	2,588	1	2
		508			
Termination benefits - Hawaii operations sold	8	-	-	-	-
	-	-			
Settlement loss	-	815	229	-	-
		-			
Settlement loss - Hawaii operations sold	80	-	-	-	-
	-	-			
Curtailment (gain) loss and other, net	441	1	65	(343)	
)		2	(130))	
Curtailment loss - Hawaii operations sold	6	-	-	-	-
	-	-			
Subtotal	538	820	2,882	(342)	4
		378			
Total cost	\$ 172	\$ 225	\$ 1,598	\$ 1,762	\$
1,774		\$ 1,450			

The termination benefits, settlement loss and curtailment loss amounts pertaining to the Hawaii operations sold were recorded in the consolidated statements of income in Sales of Businesses, Net.

Additional Information

We evaluate each pension plan to determine whether any additional minimum liability is required. As a result of changes in interest rates and changes in investment returns, an adjustment to the additional minimum pension liability was required for a small number of plans as indicated below. The adjustment in the liability is recorded as a charge or (credit) to Accumulated Other Comprehensive Loss, net of tax, in shareowners' investment in the consolidated balance sheets.

--	--	--	--	--	--

In order to project the long-term target investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period, or longer. Those estimates are based on a combination of factors including the following: current market interest rates and valuation levels, consensus earnings expectations, historical long-term risk premiums and value-added. To determine the aggregate return for the pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

The assumed Health Care Cost Trend Rates follow:

--	--	--	--	--	--

						Health
--	--	--	--	--	--	--------

Care and Life

At December 31,						2005
-----------------	--	--	--	--	--	------

2004

2003

Health care cost trend rate assumed for next year						
---	--	--	--	--	--	--

10.00

%

10.00

%

10.00

%

Rate to which cost trend rate gradually declines						5.00
--	--	--	--	--	--	-------------

5.00

5.00

Year the rate reaches level it is assumed to remain thereafter						2010
--	--	--	--	--	--	-------------

2009

2008

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

--	--	--	--	--	--

(dollars in millions)			
One-Percentage-Point			
			Increase
			Decrease
Effect on 2005 total service and interest cost		\$	
295		\$	
(232))	
Effect on postretirement benefit obligation as of December 31, 2005		3,378	
			(2,745)
)

Plan Assets

Pension Plans

The weighted-average asset allocations for the pension plans by asset category follow:

At December 31,	2005		2004	
Asset Category				
Equity securities	63.4	%	63.0	%
Debt securities	17.5		18.2	
Real estate	3.2		3.5	
Other	15.9		15.3	
Total	100.0	%	100.0	%

Equity securities include Verizon common stock in the amounts of \$72 million (less than 1% of total plan assets) and \$121 million (less than 1% of total plan assets) at December 31, 2005 and 2004, respectively. Other assets include cash and cash equivalents (primarily held for the payment of benefits), private equity and investments in absolute return strategies.

Health Care and Life Plans

The weighted-average asset allocations for the other postretirement benefit plans by asset category follow:

At December 31,	2005		2004	
Asset Category				
Equity securities	71.9	%	66.7	%
Debt securities	22.1		25.6	
Real estate	0.1		0.1	
Other	5.9		7.6	

Total	100.0	%	100.0	%				
-------	-------	---	-------	---	--	--	--	--

Equity securities include Verizon common stock in the amounts of \$4 million (less than 1% of total plan assets) and \$8 million (less than 1% of total plan assets) at December 31, 2005 and 2004, respectively.

The portfolio strategy emphasizes a long-term equity orientation, significant global diversification, the use of both public and private investments and professional financial and operational risk controls. Assets are allocated according to a long-term policy neutral position and held within a relatively narrow and pre-determined range. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors.

Cash Flows

Federal legislation was enacted on April 10, 2004 that provides temporary pension funding relief for the 2004 and 2005 plan years. The legislation replaced the 30-year treasury rate with a higher corporate bond rate for determining the current liability. In 2005, we contributed \$744 million to our qualified pension trusts, \$108 million to our nonqualified pension plans and \$1,085 million to our other postretirement benefit plans. Our estimate of the amount and timing of required qualified pension trust contributions for 2006 is based on current regulations, including continued pension funding relief, and is approximately \$100 million, primarily for the TELPRI plans. We anticipate \$145 million in contributions to our non-qualified pension plans in 2006 and \$1,180 million to our other postretirement benefit plans.

Estimated Future Benefit Payments

The benefit payments to retirees, which reflect expected future service, are expected to be paid as follows:

		(dollars in millions)		
		Pension Benefits		
		Health Care and Life Gross of Medical		
Subsidy				
2006		\$ 2,626		
		\$ 1,679		
2007		2,649		
		1,769		
2008		2,607		
		1,825		
2009		2,887		
		1,853		
2010		3,187		
		1,925		
2011 - 2015		17,217		
		9,651		

Medicare Prescription Drug subsidies expected to offset the future Health Care and Life benefit payments noted above are as follows:

	(dollars in	
millions)		
	Health	
Care and Life		
2006	\$ 88	
2007	93	
2008	96	
2009	97	
2010	101	
2011 - 2015	500	

Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP). Under these plans, we match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from these ESOPs. Common stock is allocated from all leveraged ESOP trusts based on the proportion of principal and interest paid on ESOP debt in a year to the remaining principal and interest due over the term of the debt. The final debt service payments and related share allocations for two of our leveraged ESOPs were made in 2004. At December 31, 2005, the number of unallocated and allocated shares of common stock was 5 million and 76 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

We recognize leveraged ESOP cost based on the modified shares allocated method for the leveraged ESOP trusts which purchased securities before December 15, 1989 and the shares allocated method for the leveraged ESOP trust which purchased securities after December 15, 1989. ESOP cost and trust activity consist of the following:

		(dollars in millions)			
Years Ended December 31,	2005		2004		
			2003		
Compensation	\$ 39		\$		
159			\$ 148		
Interest incurred	-		12		
			22		
Dividends	(16)		(16		

) (24)

Net leveraged ESOP cost	23	155		
			146	
Additional ESOP cost	208	81		
			127	
Total ESOP cost	\$ 231	\$		
236			\$ 273	
Dividends received for debt service	\$ 16	\$		
62			\$ 76	
Total company contributions to leveraged ESOP trusts	\$ 259	\$		
275			\$ 306	

In addition to the ESOPs described above, we maintain savings plans for non-management employees and employees of certain subsidiaries. Compensation expense associated with these savings plans was \$254 million in 2005, \$234 million in 2004 and \$220 million in 2003.

Severance Benefits

The following table provides an analysis of our severance liability recorded in accordance with SFAS Nos. 112 and 146:

(dollars in millions)				
Year	Beginning of Year	Charged to Expense	Payments	Other
	End of Year			
2003	\$ 1,137	\$ 1,985	\$ (857)	\$ -
	\$ 2,265			
2004	2,265	-	(1,442)	(48)
	775			
2005	775	102	(256)	(8)
	613			

The remaining severance liability includes future contractual payments to employees separated as of December 31, 2005.

Note 16**Income Taxes**

The components of Income Before Provision for Income Taxes, Discontinued Operations and Cumulative Effect of Accounting Change are as follows:

		(dollars in millions)	
Years Ended December 31,	2005	2004	2003
Domestic	\$ 9,183	\$	
7,802		\$ 2,892	
Foreign	1,424	2,310	
		1,781	
	\$ 10,607	\$	
10,112		\$ 4,673	

The components of the provision for income taxes from continuing operations are as follows:

		(dollars in millions)	
Years Ended December 31,	2005	2004	2003
Current			
Federal	\$ 3,355	\$	
305		\$ 48	
Foreign	195	369	
		72	
State and local	719	335	
		267	
	4,269	1,009	

Deferred					
Federal	(829	)	1,694		
			820		
Foreign	(37	)	33		
			18		
State and local	(186	)	123		
			(2)	
	(1,052	)	1,850		
			836		
Investment tax credits	(7	)	(8		
	)	(10)		
Total income tax expense	\$ 3,210		\$		
2,851			\$ 1,213		

The following table shows the principal reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

Years Ended December 31,		2005			
	2004		2003		
Statutory federal income tax rate		35.0 %			
		35.0 %			
		35.0 %			
State and local income tax, net of federal tax benefits		3.3			
	2.9		3.7		
Tax benefits from investment losses		(3.6)		
	(2.9	)	(3.1		
)				
Equity in earnings from unconsolidated businesses		(2.8)		
	(6.4	)	(10.6		

)				
Other, net	(1.6)				
	(.4)	1.0			
Effective income tax rate	30.3 %				
	28.2 %				
	26.0 %				

During 2005, we recorded a tax benefit of \$336 million in connection with capital gains and prior year investment losses. As a result of the capital gain realized in 2005 in connection with the sale of our Hawaii businesses, we recorded a tax benefit of \$242 million related to prior year investment losses. Also during 2005, we recorded a net tax provision of \$206 million related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004, which provides for a favorable federal income tax rate in connection with the repatriation of foreign earnings, provided the criteria described in the law is met. Two of Verizon's foreign investments repatriated earnings resulting in income taxes of \$332 million, partially offset by a tax benefit of \$126 million.

The favorable impact on our 2004 and 2003 effective income tax rates was primarily driven by increased earnings from our unconsolidated businesses and tax benefits from valuation allowance reversals.

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of deferred tax liabilities (assets) are shown in the following table:

		(dollars			
in millions)					
At December 31,		2005			
		2004			
Depreciation	\$				
9,445					
	\$				
10,307					
Employee benefits		(1,971			
)			
		(1,704			
)			
Leasing activity		3,001			
		3,212			

Loss on investments	(369)			
)			
	(752)			
)			
Wireless joint venture including wireless licenses				
	11,786			
	10,382			
Uncollectible accounts receivable	(406)			
)			
	(501)			
)			
Other - net	(505)			
)			
	(837)			
)			
	20,981			
	20,107			
Valuation allowance	815			
	1,217			
Net deferred tax liability	\$			
21,796	\$			
21,324				
Net long-term deferred tax liabilities	\$			
22,411	\$			
22,532				
Less net current deferred tax assets (in Prepaid Expenses and Other)	511			
	1,076			
Less deferred investment tax credit	104			
	132			
Net deferred tax liability	\$			

21,796

\$

21,324

At December 31, 2005, undistributed earnings of our foreign subsidiaries amounted to approximately \$3.0 billion. Deferred income taxes are not provided on these earnings as it is intended that the earnings are indefinitely invested outside of the U.S. It is not practical to estimate the amount of taxes that might be payable upon the remittance of such earnings.

The valuation allowance primarily represents the tax benefits of certain state net operating loss carry forwards, capital loss carry forwards and other deferred tax assets which may expire without being utilized. During 2005, the valuation allowance decreased \$402 million. This decrease primarily relates to the valuation allowance reversals relating to utilizing prior year investment losses to offset the capital gains realized on the sale of Hawaii businesses.

Note 17

Segment Information

Reportable Segments

We have four reportable segments, which we operate and manage as strategic business units and organize by products and services. We measure and evaluate our reportable segments based on segment income. This segment income excludes unallocated corporate expenses and other adjustments arising during each period. The other adjustments include transactions that the chief operating decision makers exclude in assessing business unit performance due primarily to their non-recurring and/or non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results, since these items are included in the chief operating decision makers' assessment of unit performance. These gains and losses are primarily contained in Information Services and International since they actively manage investment portfolios.

Our segments and their principal activities consist of the following:

Segment	Description
Domestic Telecom	Domestic Telecom provides local telephone services, including voice, DSL, data transport, enhanced and custom calling features, network access, directory assistance, private lines and public telephones in 28 states and Washington, D.C. This segment also provides long distance services, customer premises equipment distribution, video services, data solutions and systems integration, billing and collections and inventory management services.
Domestic Wireless	Domestic wireless products and services include wireless voice and data services and equipment sales across the United States. This segment primarily represents the operations of the Verizon Wireless joint venture with Vodafone. Verizon owns a 55% interest in the joint venture and Vodafone owns the remaining 45%. All financial results included in the tables below reflect the consolidated results of Verizon Wireless.
Information Services	Information Services' multi-platform business comprises yellow pages directories, SuperPages.com, our online directory and search services, and SuperPages On the Go, our directory

and information services on wireless telephones. This segment's operations are principally in the United States.

International	International wireline and wireless communications operations and investments in the Americas and Europe.
----------------------	---

The following table provides operating financial information for our four reportable segments:

(dollars in millions)				
2005	Domestic Telecom	Domestic Wireless	Information Services	
	International	Total Segments		
External revenues	\$ 36,628	\$ 32,219	\$ 3,452	\$ 2,159
		\$ 74,458		
Intersegment revenues	988	82	-	34
	1,104			
Total operating revenues	37,616	32,301	3,452	2,193
		75,562		
Cost of services and sales	15,604	9,393	593	707
		26,297		
Selling, general & administrative expense	8,419	10,768	1,107	675
		20,969		
Depreciation & amortization expense	8,801	4,760	92	340
		13,993		
Total operating expenses	32,824	24,921	1,792	1,722
		61,259		
Operating income	4,792	7,380	1,660	471
		14,303		
Equity in earnings of unconsolidated businesses	-	-	27	-
	807	834		
Income from other unconsolidated businesses	-	-	-	56
	56			
Other income and (expense), net	79	6	17	259
		361		
Interest expense	(1,701)	(601)	-	(127)
	)	(2,429))	
Minority interest	-	(2,995)	(7)	(44)
	)	(3,046))	
Provision for income taxes	(1,264)	(1,598)	(626)	(171)
	)	(3,659))	
Segment income	\$ 1,906	\$ 2,219	\$ 1,044	\$ 1,251
		\$6,420		
Assets	\$ 75,188	\$ 76,729	\$ 1,525	\$ 11,603
		\$ 165,045		

Investments in unconsolidated businesses	2	154	1	2,767
		2,924		
Plant, property and equipment, net	49,618	22,790	166	2,155
		74,729		
Capital expenditures	8,267	6,484	80	283
		15,114		
(dollars in millions)				
2004	Domestic Telecom	Domestic Wireless	Information Services	
	International	Total Segments		
External revenues	\$ 37,160	\$ 27,586	\$ 3,549	\$ 1,982
		\$ 70,277		
Intersegment revenues	861	76	-	32
	969			
Total operating revenues	38,021	27,662	3,549	2,014
		71,246		
Cost of services and sales	14,830	7,747	542	626
		23,745		
Selling, general & administrative expense	8,621	9,591	1,319	471
		20,002		
Depreciation & amortization expense	8,910	4,486	87	324
		13,807		
Total operating expenses	32,361	21,824	1,948	1,421
		57,554		
Operating income	5,660	5,838	1,601	593
		13,692		
Equity in earnings of unconsolidated businesses	-	45	-	
	1,031	1,076		
Income from other unconsolidated businesses	-	-	-	31
	31			
Other income and (expense), net	100	11	15	35
	161			
Interest expense	(1,602)	(661)	(33)	(85)
	)	(2,381))	
Minority interest	-	(2,323)	(6)	(80)
	)	(2,409))	
Provision for income taxes	(1,506)	(1,265)	(609)	(300)
	)	(3,680))	
Segment income	\$ 2,652	\$ 1,645	\$ 968	\$ 1,225
		\$ 6,490		
Assets	\$ 78,824	\$ 68,027	\$ 1,680	\$ 14,885
		\$ 163,416		
Investments in unconsolidated businesses	3	148	4	4,914
		5,069		
Plant, property and equipment, net	50,608	20,516	179	2,391

Consolidated operating expenses - reported	\$ 60,298	\$ 58,166		
	\$ 60,061			
		(dollars in		
millions)				
	2005	2004		
	2003			
Net Income				
Segment income - reportable segments	\$ 6,420	\$ 6,490		
		\$ 6,902		
Sales of businesses and investments, net (see Notes 3, 5 and 8)	336	1,059		
		44		
Severance, pension and benefit charges (see Note 4)	(95	) (499		
	)	(3,399)		
Verizon Center relocation, net (see Note 4)	8	-		
	-			
MCI exposure, lease impairment and other special items (see Note 4)	(133	) 2		
	(419)		
Iusacell charge (see Note 3)	-	-		
	(931)		
Tax benefits (see Note 4)	336	234		
	-			
Tax provision on repatriated earnings (see Note 4)	(206) -		
	-			
Income on discontinued operations (see Note 3)	-	54		
	46			
Cumulative effect of accounting change (see Note 2)	-	-		
	503			
Corporate and other	731	491		
	331			
Consolidated net income - reported	\$ 7,397	\$ 7,831		
		\$ 3,077		
Assets				
Total reportable segments	\$ 165,045	\$ 163,416		
		\$ 160,851		
Reconciling items	3,085	2,542		

5,117

Consolidated assets	\$ 168,130	\$ 165,958		
		\$ 165,968		

Results of operations for Domestic Telecom and Information Services exclude the effects of our wireline and directory businesses in Hawaii, including Verizon Hawaii Inc. which operated approximately 700,000 switched access lines, as well as the services and assets of Verizon Long Distance, Verizon Online, Verizon Information Services and Verizon Select Services in Hawaii (see Note 3). Financial information for Information Services excludes the effects of Verizon Information Services Canada (see Note 3).

Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses such as lease financing, and asset impairments and expenses that are not allocated in assessing segment performance due to their non-recurring nature.

We generally account for intersegment sales of products and services and asset transfers at current market prices. We are not dependent on any single customer.

Geographic Areas

Our foreign investments are located principally in the Americas and Europe. Domestic and foreign operating revenues are based on the location of customers. Long-lived assets consist of plant, property and equipment (net of accumulated depreciation) and investments in unconsolidated businesses. The table below presents financial information by major geographic area:

	(dollars in millions)			
Years Ended December 31,	2005			
	2004			
	2003			
Domestic				
Operating revenues	\$ 72,701			
	\$ 69,173			
	\$ 65,303			
Long-lived assets	74,978			
	72,668			
	74,346			
Foreign				
Operating revenues	2,411			
	2,110			
	2,165			

Long-lived assets	4,931				
	7,311				
	6,745				
Consolidated					
Operating revenues	75,112				
	71,283				
	67,468				
Long-lived assets	79,909				
	79,979				
	81,091				

Note 18

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting shareowners' investment that, under GAAP, are excluded from net income.

Changes in the components of other comprehensive income (loss), net of income tax expense (benefit), are as follows:

	(dollars in				
millions)					
Years Ended December 31,	2005				
	2004				
	2003				
Foreign Currency Translation Adjustments , net of taxes of \$-, \$- and \$-	\$ (755)				
	\$ 548				
	\$ 568				
Unrealized Gains (Losses) on Net Investment Hedges					
Unrealized gains (losses), net of taxes of \$1, \$(48) and \$-	2				
	(58)				
	-				
Less reclassification adjustments for losses realized in net income, net of taxes of \$-, \$(48) and \$-	-				
	(58)				
	-				
Net unrealized gains on net investment hedges	2				

	-	-					
Unrealized Derivative Gains (Losses) on Cash Flow Hedges							
Unrealized gains (losses), net of taxes of \$-, \$(2) and \$(1)	4						
	(9)						
	30						
Less reclassification adjustments for gains (losses) realized in net income, net of taxes of \$(2), \$(2) and \$(1)	(6)						
	(26)						
	51						
Net unrealized derivative gains (losses) on cash flow hedges	10						
	17						
	(21)						
Unrealized Gains (Losses) on Marketable Securities							
Unrealized gains, net of taxes of \$10, \$4 and \$2	4						
	8	5					
Less reclassification adjustments for gains realized in net income, net of taxes of \$14, \$1 and \$1	25						
	1	4					
Net unrealized gains (losses) on marketable securities	(21)						
	7	1					
Minimum Pension Liability Adjustment , net of taxes of \$25, \$(212) and \$201	34						
	(375)						
	312						
Other Comprehensive Income (Loss)	\$ (730)						
	\$ 197						
	\$ 860						

The foreign currency translation adjustment in 2005 represents unrealized losses from the decline in the functional currencies on our investments in Vodafone Omnitel, Verizon Dominicana, C. por A. (Verizon Dominicana) and CANTV. The foreign currency translation adjustment in 2004 represents unrealized gains from the appreciation of the functional currencies at Verizon Dominicana and our investment in Vodafone Omnitel as well as the reclassification of the foreign currency translation loss in connection with the sale of our 20.5% interest in TELUS (see Note 8), partially offset by unrealized losses from the decline in the functional currency on our investment in CANTV. The foreign currency translation adjustment in 2003 is primarily driven by the impact of the euro on our investment in Vodafone Omnitel and a reclassification of the foreign currency translation loss of Iusacell of \$577 million in connection with the sale of Iusacell (see Note 3), partially offset by unrealized foreign currency translation losses at Verizon Dominicana and CANTV.

During 2005, we entered into zero cost euro collars to hedge a portion of our net investment in Vodafone Omnitel. As of December 31, 2005, our positions in the zero cost euro collars have been settled. During 2004, we entered into foreign currency forward contracts to hedge our net investment in Verizon Information Services Canada and

TELUS (see Note 12). In connection with the sales of these interests in the fourth quarter of 2004, the unrealized losses on these net investment hedges were realized in net income along with the corresponding foreign currency translation balance.

The changes in the minimum pension liability in 2005, 2004 and 2003 were required by accounting rules for certain pension plans based on their funded status (see Note 15).

The components of Accumulated Other Comprehensive Loss are as follows:

		(dollars in		
		millions)		
At December 31,		2005		
		2004		
Foreign currency translation adjustments	\$ (867			
) \$			
(112)			
Unrealized gains on net investment hedges	2			
	-			
Unrealized derivative losses on cash flow hedges	(27			
	) (37			
)			
Unrealized gains on marketable securities	10			
	31			
Minimum pension liability adjustment	(901			
	) (935			
)			
Accumulated other comprehensive loss	\$ (1,783			
) \$			
(1,053)			

Note 19

Accounting for the Impact of the September 11, 2001 Terrorist Attacks

The primary financial statement impact of the September 11, 2001 terrorist attacks pertains to Verizon's plant, equipment and administrative office space located either in, or adjacent to the World Trade Center complex, and the associated service restoration efforts. We recorded insurance recoveries related to the terrorist attacks of \$270 million in 2003 and \$200 million in 2002, primarily offsetting fixed asset losses and expenses incurred in 2005 and preceding years. Of the amounts recorded, approximately \$130 million in 2003 and \$112 million in 2002 relate

to operating expenses (primarily cost of services and sales) reported in the consolidated statements of income, and also reported by our Domestic Telecom segment. The costs and estimated insurance recoveries were recorded in accordance with EITF No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001." As of December 31, 2005, we received insurance proceeds of \$849 million.

Note 20
Additional Financial Information

The tables that follow provide additional financial information related to our consolidated financial statements:

Income Statement Information

	(dollars in millions)			
Years Ended December 31,	2005		2004	
				2003
Depreciation expense	\$ 12,519		\$	
12,508			\$	
12,210				
Interest expense incurred	2,533			
	2,561			
	2,941			
Capitalized interest	(352)	)	(177	
	)		(144	
)			
Advertising expense	1,914			
	1,685			
	1,419			

Balance Sheet Information

	(dollars in millions)			
At December 31,	2005		2004	
				2004
<i>Accounts Payable and Accrued Liabilities</i>				

Accounts payable	\$		
2,827	\$		
2,827			
Accrued expenses			
	3,036		
	3,071		
Accrued vacation pay	914		
	842		
Accrued salaries and wages			
	2,390		
	2,526		
Interest payable	579		
	585		
Accrued taxes			
	2,605		
	3,326		
	\$		
12,351	\$		
13,177			
<i>Other Current Liabilities</i>			
Advance billings and customer deposits	\$		
1,985	\$		
1,899			
Dividends payable			
	1,137		
	1,083		
Other			
	2,449		
	2,852		
	\$		

5,571
5,834

\$

Cash Flow Information

(dollars in millions)			
Years Ended December 31,	2005	2004	
2003			
<i>Cash Paid</i>			
Income taxes, net of amounts refunded	\$ 4,744	\$	
597	\$ (716)		
Interest, net of amounts capitalized	2,077	2,723	
	2,646		
<i>Supplemental Investing and Financing Transactions</i>			
Assets acquired in business combinations	635	8	
	880		
Liabilities assumed in business combinations	35	-	
	13		
Debt assumed in business combinations	9	-	
	4		

Note 21

Guarantees of Operating Subsidiary Debt

Verizon has guaranteed the following two obligations of indirect wholly owned operating subsidiaries: \$480 million 7% debentures series B, due 2042 issued by Verizon New England Inc. and \$300 million 7% debentures series F issued by Verizon South Inc. due 2041. These guarantees are full and unconditional and would require Verizon to make scheduled payments immediately if either of the two subsidiaries failed to do so. Both of these securities were issued in denominations of \$25 and were sold primarily to retail investors and are listed on the New York Stock Exchange. SEC rules permit us to include condensed consolidating financial information for these two subsidiaries in our periodic SEC reports rather than filing separate subsidiary periodic SEC reports.

Below is the condensed consolidating financial information. Verizon New England and Verizon South are presented in separate columns. The column labeled Parent represents Verizon's investments in all of its subsidiaries under the equity method and the Other column represents all other subsidiaries of Verizon on a combined basis. The Adjustments column reflects intercompany eliminations.

(dollars in millions)			
Condensed Consolidating Statements of Income Year Ended December 31, 2005	Parent	Verizon New England	

	Verizon South	Other	Adjustments	Total
Operating revenues	\$ -	\$ 3,936	\$ 907	\$ 70,766
(497)		\$ 75,112		
Operating expenses	8	3,628	684	56,475
)		60,298		
Operating Income (Loss)	(8)	308	223	14,291
		14,814		
Equity in earnings of unconsolidated businesses		6,698	23	-
		(6,308)	689	276
Income from other unconsolidated businesses		35	-	-
		-	92	57
Other income and (expense), net	502	(4)	6	141
)		237		(408)
Interest expense	(58)	(172)	(63)	(1,905)
		(2,180)		18
Minority interest	-	-	-	(3,045)
		(3,045)		-
Income before provision for income taxes		7,169	155	166
		(6,698)	10,607	9,815
Income tax benefit (provision)	228	(40)	(62)	(3,336)
		(3,210)		-
Net Income	\$ 7,397	\$ 115	\$ 104	\$ 6,479
(6,698)		\$ 7,397		

	(dollars in millions)			
Condensed Consolidating Statements of Income Year Ended December 31, 2004	Verizon South	Other	Parent	Verizon New England
	Verizon South	Other	Adjustments	Total
Operating revenues	\$ -	\$ 3,955	\$ 934	\$ 66,756
(362)		\$ 71,283		
Operating expenses	260	3,664	717	53,887
)		58,166		
Operating Income (Loss)	(260)	291	217	12,869
		13,117		
Equity in earnings of unconsolidated businesses		7,714	59	-
		(7,520)	1,691	1,438
Income from other unconsolidated businesses		-	-	-
		-	75	75
Other income and (expense), net	171	8	7	38
)		22		(202)
Interest expense	(20)	(165)	(63)	(2,144)
		(2,384)		8

Minority interest	-	-	-	(2,409))	-		
			(2,409))				
Income before provision for income taxes and discontinued operations	7,605	193	161					
	9,867	(7,714)	10,112					
Income tax benefit (provision)	229	(50)	(34)	(2,996))	-		
		(2,851))					
Income Before Discontinued Operations	7,834	143	127	6,871		(7,714)		
	)	7,261						
Gain (loss) on discontinued operations, net of tax	(3)	-	-	573				
	-	570						
Net Income	\$ 7,831	\$ 143	\$ 127	\$ 7,444		\$		
(7,714)	)	\$ 7,831						

(dollars in millions)							
Condensed Consolidating Statements of Income Year Ended December 31, 2003							
	Parent	Verizon New England	Verizon South	Other	Adjustments	Total	
Operating revenues	\$ -	\$ 4,102	\$ 951	\$ 62,692	\$ (277)		
	)	\$ 67,468					
Operating expenses	562	4,148	808	54,820	(277)		
	)	60,061					
Operating Income (Loss)	(562)	(46)	143	7,872			
	-	7,407					
Equity in earnings (loss) of unconsolidated businesses	3,176	(42)	-				
	1,272	(3,128)	1,278				
Income (loss) from other unconsolidated businesses	(10)	-	-				
	341	-	331				
Other income and (expense), net	75	(1)	2	(3)			
	(36)	37					
Interest expense	(78)	(160)	(64)	(2,483)	(12)		
	)	(2,797))				
Minority interest	-	-	-	(1,583)	-		
	(1,583))					
Income (loss) before provision for income taxes, discontinued operations and cumulative effect of accounting change	2,601	(249)	81	5,416	(3,176)		
	)	4,673					
Income tax benefit (provision)	476	82	(32)	(1,739)			
	)	(1,213))				
Income (Loss) Before Discontinued Operations And Cumulative Effect Of Accounting Change	3,077						
	(167)	49	3,677	(3,176)			
	)	3,460					
Loss on discontinued operations, net of tax	-	-	-	(886)			
	)	(886))				
Cumulative effect of accounting change, net of tax	-	-	369	47			

	87	-	503			
Net Income	\$ 3,077	\$ 202	\$ 96	\$ 2,878	\$ (3,176)	
)		\$ 3,077				
	(dollars in millions)					
Condensed Consolidating Balance Sheets At December 31, 2005						
			Parent	Verizon New England	Verizon South	
		Other	Adjustments	Total		
Cash	\$ -	\$ -	\$ -	\$ 776	\$ -	
		\$ 776				
Short-term investments	-		216	32	2,250	
			2,498			
Accounts receivable, net	20		910	142	9,429	
		(1,330)	9,171			
Other current assets	9,365	166	185	3,784	(9,497)	
)		4,003				
Total current assets	9,385	1,292	359	16,239	(10,827)	
)		16,448				
Plant, property and equipment, net	1		6,146	1,158	68,000	
		-	75,305			
Investments in unconsolidated businesses	32,593		116	-	10,017	
		(38,122)	4,604			
Other assets	532	472	390	70,609	(230)	
)		71,773				
Total Assets	\$ 42,511	\$ 8,026	\$ 1,907	\$ 164,865	\$ (49,179)	
)		\$ 168,130				
Debt maturing within one year		\$ 22	\$ 471	\$ -	\$ 16,452	
		\$ (9,804)	\$ 7,141			
Other current liabilities	2,511		1,049	176	15,209	
		(1,023)	17,922			
Total current liabilities	2,533		1,520	176	31,661	
		(10,827)	25,063			
Long-term debt	92	2,702	901	28,404	(230)	
)		31,869				
Employee benefit obligations	205		1,892	254	16,468	
		-	18,819			
Deferred income taxes	-		537	220	21,654	
		-	22,411			
Other liabilities	1	146	27	3,360	-	
	3,534					
Minority interest	-	-	-	26,754	-	
	26,754					
Total shareowners' investment		39,680	1,229	329	36,564	
		(38,122)	39,680			

Total Liabilities and Shareowners' Investment				\$ 42,511		\$ 8,026		\$ 1,907		
				\$ 164,865		\$ (49,179)		\$ 168,130		

--	--	--	--	--	--	--	--	--	--	--

	(dollars in millions)									
Condensed Consolidating Balance Sheets At December 31, 2004				Parent		Verizon New England		Verizon South		

				Other		Adjustments		Total		
Cash	\$ -			\$ -		\$ -		\$ 2,290		\$ -
				\$ 2,290						

Short-term investments				-		187		33		2,037
				-		2,257				

Accounts receivable, net				6		913		151		9,751
				(1,020		) 9,801				

Other current assets	7,632			151		123		4,985		(7,760
)				5,131						

Total current assets	7,638			1,251		307		19,063		(8,780
)				19,479						

Plant, property and equipment, net				1		6,444		1,204		66,475
				-		74,124				

Investments in unconsolidated businesses				32,191		116		-		9,639
				(36,091		) 5,855				

Other assets	408			488		374		65,460		(230)
	66,500									

Total Assets	\$ 40,238			\$ 8,299		\$ 1,885		\$ 160,637		\$ (45,101
)				\$ 165,958						

Debt maturing within one year				\$ 31		\$ 168		\$ -		\$ 11,222
				\$ (7,828		) \$ 3,593				

Other current liabilities				2,372		1,217		181		16,718
				(952		) 19,536				

Total current liabilities				2,403		1,385		181		27,940
				(8,780		) 23,129				

Long-term debt	113			2,966		901		31,924		(230)
	35,674									

Employee benefit obligations				160		1,940		235		15,606
				-		17,941				

Deferred income taxes	-			571		249		21,712		-
	22,532									

Other liabilities	2			253		34		3,780		-
	4,069									

Minority interest	-			-		-		25,053		-
	25,053									

Total shareowners' investment	37,560	1,184	285	34,622
	(36,091	) 37,560		
Total Liabilities and Shareowners' Investment	\$ 40,238	\$ 8,299	\$ 1,885	
	\$ 160,637	\$ (45,101	) \$ 165,958	

(dollars in millions)

Condensed Consolidating Statements of Cash Flows Year Ended December 31, 2005				
England	Verizon South	Other	Parent	Verizon New
England	Verizon South	Other	Adjustments	Total
Net cash from operating activities	\$ 7,605	\$ 831	\$ 284	\$ 20,229
	\$ (6,937	) \$ 22,012		
Net cash from investing activities	(913	) (784	) (221	) (16,343
	(231	) (18,492)	
Net cash from financing activities	(6,692	) (47	) (63	) (5,400
	7,168	(5,034)	
Net Decrease in Cash	\$ -	\$ -	\$ -	\$ (1,514
	\$ -	\$ (1,514)	

(dollars in millions)

Condensed Consolidating Statements of Cash Flows Year Ended December 31, 2004				
England	Verizon South	Other	Parent	Verizon New
England	Verizon South	Other	Adjustments	Total
Net cash from operating activities	\$ 6,650	\$ 1,219	\$ 282	\$ 20,133
	\$ (6,464	) \$ 21,820		
Net cash from investing activities	-	(655	) (75	) (9,559
	(54	) (10,343)	
Net cash from financing activities	(6,650	) (564	) (207	) (8,953
	6,518	(9,856)	
Net Increase in Cash	\$ -	\$ -	\$ 1,621	\$ -
	\$ 1,621			

(dollars in millions)

Condensed Consolidating Statements of Cash Flows Year Ended December 31, 2003				
England	Verizon South	Other	Parent	Verizon New
England	Verizon South	Other	Adjustments	Total
Net cash from operating activities	\$ 8,763	\$ 1,304	\$ 283	\$ 20,630
	\$ (8,513	) \$ 22,467		
Net cash from investing activities	-	(628	) (229	) (11,506
	127	(12,236)	
Net cash from financing activities	(8,763	) (676	) (54	) (9,852
	8,386	(10,959)	
Net Decrease in Cash	\$ -	\$ -	\$ -	\$ (728
	\$ -	\$ (728)	

(dollars in millions, except per share amounts)				
Income Before Discontinued				
Operations				
Quarter Ended	Operating Revenues	Operating Income	Amount	
	Per Share- Basic	Per Share- Diluted	Net Income	
2005				
March 31	\$ 18,179	\$ 3,382	\$ 1,757	\$.63
	\$.63	\$ 1,757		
June 30 ^(a)	18,569	4,092	2,113	.76
	.75	2,113		
September 30 ^(b)	19,038	3,633	1,869	.68
	.67	1,869		
December 31	19,326	3,707	1,658	.60
	.59	1,658		
2004				
March 31 ^(c)	\$ 17,056	\$ 2,466	\$ 1,183	\$.43
	\$.42	\$ 1,199		
June 30	17,758	3,701	1,782	.64
	.64	1,797		
September 30	18,206	3,597	1,779	.64
	.64	1,796		
December 31 ^(d)	18,263	3,353	2,517	.91
	.90	3,039		

(a) Results of operations for the second quarter of 2005 include a \$336 million net after-tax gain on the sale of our wireline and directory businesses in Hawaii, tax benefits of \$242 million associated with prior investment losses and a net tax provision of \$232 million related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004.

(b) Results of operations for the third quarter of 2005 include an impairment charge of \$125 million pertaining to our leasing operations for airplanes leased to airlines experiencing financial difficulties.

(c) Results of operations for the first quarter of 2004 include a \$446 million after-tax charge for severance and related pension settlement benefits.

(d) Results of operations for the fourth quarter of 2004 include a \$500 million net after-tax gain on the sale of an investment and \$234 million of tax benefits associated with prior investment losses.

Income before discontinued operations per common share is computed independently for each quarter and the sum of the quarters may not equal the annual amount.

Note 24**Subsequent Events (Unaudited)**

MCI Merger

On February 14, 2005, Verizon announced that it had agreed to acquire MCI for a combination of Verizon common shares and cash (including MCI dividends). On May 2, 2005, Verizon announced that it agreed with MCI to further amend its agreement to acquire MCI for cash and stock of at least \$26.00 per share, consisting of cash of \$5.60, which was paid as a special dividend by MCI on October 27, 2005, after the October 6, 2005 approval of the transaction by MCI shareholders, plus the greater of .5743 Verizon shares for each MCI common share or a sufficient number of Verizon shares to deliver to shareholders \$20.40 of value. Under this price protection feature, Verizon had the option of paying additional cash instead of issuing additional shares over the .5743 exchange ratio. This consideration was subject to adjustment at closing and may have been decreased based on MCI's bankruptcy claims-related experience and international tax liabilities. The merger received the required state, federal and international regulatory approvals by year-end 2005, and on January 6, 2006, Verizon and MCI closed the merger.

Under terms of the merger agreement, MCI shareholders received .5743 shares of Verizon and cash for each of their MCI shares. Verizon elected to make a supplemental cash payment of \$2.738 per MCI share, \$779 million in the aggregate, rather than issue additional shares of Verizon common stock, so that the merger consideration was equal to at least \$20.40 per MCI share. Verizon and MCI management mutually agreed that there was no purchase price adjustment related to the amount of MCI's bankruptcy claims-related experience and international tax liabilities.

Redemption of MCI Debt

On January 17, 2006, Verizon announced offers to purchase two series of MCI senior notes, MCI \$1,983 million aggregate principal amount of 6.688% Senior Notes Due 2009 and MCI \$1,699 million aggregate principal amount of 7.735% Senior Notes Due 2014, at 101% of their par value. Due to the change in control of MCI that occurred in connection with the merger with Verizon on January 6, 2006, Verizon is required to make this offer to noteholders within 30 days of the closing of the merger of MCI and Verizon. Separately, Verizon notified noteholders that MCI is exercising its right to redeem both series of Senior Notes prior to maturity under the optional redemption procedures provided in the indentures. The 6.688% Notes were redeemed on March 1, 2006, and the 7.735% Notes were redeemed on February 16, 2006.

In addition, on January 20, 2006, Verizon announced an offer to repurchase MCI \$1,983 million aggregate principal amount of 5.908% Senior Notes Due 2007 at 101% of their par value. On February 21, 2006, \$1,804 million of these notes were redeemed by Verizon. Verizon satisfied and discharged the indenture governing this series of notes shortly after the close of the offer for those noteholders who did not accept this offer.

Issuance of Debt

In February 2006, Verizon issued \$4,000 million of floating rate and fixed rate notes maturing from 2007 through 2035.

EXHIBIT 21**Verizon Communications Inc. and Subsidiaries**
Principal Subsidiaries of Registrant at December 31, 2005

Name	Jurisdiction of Organization
------	------------------------------

Verizon California Inc.	California
Verizon Delaware Inc.	Delaware
Verizon Florida Inc.	Florida
Verizon Maryland Inc.	Maryland
Verizon New England Inc.	New York
Verizon New Jersey Inc.	New Jersey
Verizon New York Inc.	New York
Verizon North Inc.	Wisconsin
Verizon Northwest Inc.	Washington
Verizon Pennsylvania Inc.	Pennsylvania
Verizon South Inc.	Virginia
GTE Southwest Incorporated (d/b/a Verizon Southwest)	Delaware
Verizon Virginia Inc.	Virginia
Verizon Washington, DC Inc.	New York
Verizon West Virginia Inc.	West Virginia
Cellco Partnership (d/b/a Verizon Wireless)	Delaware
Verizon Capital Corp.	Delaware
Verizon Global Funding Corp.	Delaware
Verizon Information Services Inc.	Delaware
Verizon International Holdings Ltd.	Bermuda

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Verizon Communications Inc.

(Verizon) of our reports dated February 23, 2006, with respect to the consolidated financial statements of Verizon, Verizon management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Verizon, included in the 2005 Annual Report to Shareowners of Verizon.

Our audits also included the financial statement schedule of Verizon listed in Item 15(a). This schedule is the responsibility of Verizon's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following registration statements of Verizon and where applicable, related Prospectuses, of our reports dated February 23, 2006, with respect to the consolidated financial statements of Verizon, Verizon management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Verizon, incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 2005: Form S-8, No. 333-66459; Form S-8, No. 333-66349; Form S-4, No. 333-11573; Form S-8, No. 333-41593; Form S-8, No. 333-42801; Form S-4, No. 333-76171; Form S-8, No. 333-75553; Form S-8, No. 333-76171; Form S-8, No. 333-50146; Form S-8, No. 333-53830; Form S-3, No. 333-73612; Form S-4, No. 333-82408; Form S-8, No. 333-82690; Form S-3, No. 333-109028-01; Form S-3, No. 333-106750; Form S-8, No. 333-105512; Form S-8, No. 333-105511; Form S-8, No. 333-118904; Form S-8, No. 333-123374; and Form S-4, No. 333-124008.

/s/	Ernst & Young LLP
	Ernst & Young LLP New York, New York March 14, 2006

EXHIBIT 31.1

I, Ivan G. Seidenberg, certify that:

- | | |
|-----|--|
| 1. | I have reviewed this annual report on Form 10-K of Verizon Communications Inc.; |
| 2. | Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; |
| 3. | Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; |
| 4. | The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: |
| (a) | Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; |

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006	/s/	Ivan G. Seidenberg
		Ivan G. Seidenberg Chairman and

Chief Executive Officer

EXHIBIT 31.2

I, Doreen A. Toben, certify that:

1. I have reviewed this annual report on Form 10-K of Verizon Communications Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to

be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006	/s/	Doreen A. Toben
		Doreen A. Toben Executive Vice

President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

I, Ivan G. Seidenberg, Chairman and Chief Executive Officer of Verizon Communications Inc. (the "Company"), certify that:

(1) the report of the Company on Form 10-K for the annual period ending December 31, 2005 (the "Report") fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the

Report.

Date: March 14, 2006	/s/	Ivan G. Seidenberg
		Ivan G. Seidenberg Chairman and

Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

I, Doreen A. Toben, Executive Vice President and Chief Financial Officer of Verizon Communications Inc. (the "Company"), certify that:

- (1) the report of the Company on Form 10-K for the annual period ending December 31, 2005 (the "Report") fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the Report.

Date: March 14, 2006	/s/	Doreen A. Toben
		Doreen A. Toben Executive Vice

President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark one)	
<input checked="" type="checkbox"/>	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
	OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2006
OR	
<input type="checkbox"/>	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
	OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission file number 1-8606

Verizon Communications Inc.

(Exact name of registrant as specified in its charter)

Delaware	23-2259884
(State of incorporation)	(I.R.S. Employer Identification No.)
140 West Street New York, New York	10007
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 395-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.10 par value	New York, Philadelphia, Boston, Chicago, London, Swiss, Amsterdam and Frankfurt Stock Exchanges

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>
---	--	--

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At June 30, 2006, the aggregate market value of the registrant's voting stock held by nonaffiliates was approximately \$93,436,462,000.

At January 31, 2007, 2,909,893,627 shares of the registrant's Common Stock were outstanding, after deducting 57,758,811 shares held in treasury.

Documents incorporated by reference:

Portions of the registrant's Annual Report to Shareowners for the year ended December 31, 2006 (Parts I and II).

Portions of the registrant's Proxy Statement prepared in connection with the 2007 Annual Meeting of Shareowners (Part III).

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PART I Item 1. Business

General

Verizon Communications Inc. (Verizon) is one of the world’s leading providers of communications services. Our Wireline business provides telephone services, including voice, network access and nationwide long-distance services, broadband video and data services, and other communications products and services. Our wireline business also owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks. Our domestic wireless business, operating as Verizon Wireless, provides wireless voice and data products and services across the United States using one of the most extensive domestic wireless networks. Stressing diversity and commitment to the communities in which we operate, we have a highly diverse workforce of 242,000 employees.

Verizon, formerly known as Bell Atlantic Corporation, was incorporated in 1983 under the laws of the State of Delaware. We began doing business as Verizon Communications on June 30, 2000 following our merger with GTE Corporation. We completed our merger with MCI on January 6, 2006, and have incorporated its operations into our wireline business.

Our principal executive offices are located at 140 West Street, New York, New York 10007 (telephone number 212-395-1000).

We have two reportable segments, Wireline and Domestic Wireless, which we operate and manage as strategic business units and organize by products and services. Our segments and their principal activities consist of the following:

Wireline	Wireline provides communications services including voice, broadband video and data, next generation IP network services, network access, long distance and other services to consumers, carriers, business and government customers both domestically and globally in 150 countries.
Domestic Wireless	Domestic Wireless products and services include wireless voice and data products and other value added services and equipment sales across the United States.

You can find additional business information under the heading “Overview” on pages 18 through 19 and segment financial information under the heading “Segment Results of Operations” on pages 24 through 27 and in Note 17 on pages 69 through 71 of the 2006 Verizon Annual Report to Shareowners, which is incorporated herein by reference.

Wireline

Background

Our Wireline segment, which includes the operations of the former MCI, is comprised of two strategic units, Verizon Telecom and Verizon Business. Revenues in 2006 were \$50,794 million, representing approximately 58% of Verizon's aggregate revenues. Verizon Telecom provides local telecommunications, broadband data and video services in 28 states and Washington, D.C., as well as nationwide long-distance and other communications products and services. Verizon is deploying a fiber-to-the-premises network under the FiOS service mark, that we believe is the platform of the future for digital voice, data and video services with sufficient bandwidth and capabilities to meet our customers needs for the foreseeable future. FiOS allows us to offer our customers fast, reliable broadband access speeds, as well as robust video services. The Wireline segment also includes Verizon Business, a provider of next-generation IP network and Information Technology (IT) products and services to medium and large businesses and government customers.

Operations

Verizon Telecom

Verizon Telecom consists of three lines of business which operate across our telephone subsidiaries and focus on specific customer market areas. We are not dependent on any single customer. Our telephone operations remain responsible within their respective service areas for the provision of telephone services and regulatory matters.

Our *Mass Markets* line of business markets communications and information services to residential customers and small businesses including basic telecommunication service and end-user access; value-added services such as voicemail, caller ID and call forwarding; and broadband services, which include digital subscriber lines (DSL) and fiber optics to the premise (FiOS data and FiOS television services). Our long distance subsidiary provides national and international long distance services in all 50 states to residential and business customers, including calling cards, 800/888 services and operator services. Mass Market revenues in 2006 were approximately \$22,528 million, representing approximately 44% of Wireline's aggregate revenues. These revenues were derived primarily from the provision of telecommunication services to residential users.

Our *Wholesale* line of business markets our long distance and local exchange network facilities for resale to other long distance and competing communications carriers. Wholesale services include switched access, special access, high-capacity, high-speed digital services, unbundled network elements (UNE's) and interconnection revenues from competitive local exchange carriers (CLEC) and wireless carriers. Wholesale revenues in 2006 were approximately \$8,323 million, representing approximately 16% of Wireline's aggregate revenues. Approximately 70% of total Wholesale revenues were derived from interexchange carriers. The remaining revenues principally come from other local exchange carriers, which resell network connections to their own customers.

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Other services include operator services (including deaf relay services), public (coin) telephone, as well as former MCI dial around services including 10-10-987, 10-10-220, 1-800-COLLECT and Prepaid phone cards. Other revenues in 2006 were approximately \$2,408 million, representing approximately 5% of Wireline's aggregate revenues.

Verizon Business

Verizon Business consists of three lines of business which focus on the needs of our enterprise business customers. We are not dependent on any single customer.

Our *Enterprise Business* line of business markets voice, data and internet communications services to medium and large business customers, multi-national corporations, and state and federal governments. The Enterprise Business also provides value-added services that make communications more secure, reliable and efficient, as well as managed network services that enable customers to outsource all or a portion of their communications and information processing operations. In addition, Enterprise Business provides traditional data services in specific markets, such as Private Line, Frame Relay and ATM services, as well as advanced IP network services, both domestically and internationally. Enterprise Business's fastest growing product line is the Internet suite of products that include Private IP, IP VPN, Web Hosting and Voice over Internet Protocol (VoIP). Enterprise Business revenues in 2006 were approximately \$13,999 million, representing approximately 28% of Wireline's aggregate revenues.

Our *Wholesale* line of business focuses on the domestic wholesale services markets, which includes all wholesale traffic in the United States, as well as traffic that originates in the United States and terminates in a different country. Total Wholesale revenue was approximately \$3,381 million in 2006, representing approximately 7% of Wireline's aggregate revenues. Revenues from Wholesale local and long distance voice products, including transport, were approximately \$1,601 million in 2006, representing 47% of Wholesale's aggregate revenues. Wholesale revenue is influenced by aggressive competitive pricing, in particular long distance voice services. Revenues from Wholesale data and internet products were approximately \$1,780 million in 2006, representing approximately 53% of Wholesale's aggregate revenues.

Our *International and Other* operations serve businesses, government entities and telecommunication carriers outside of the United States and include our Skytel paging business. The International and Other market represents a new revenue stream to Verizon resulting from the MCI acquisition. Our revenues from International and Other were approximately \$3,110 million, representing approximately 6% of Wireline's aggregate revenues in 2006. Of this amount, International and Other had voice revenue of approximately \$1,822 million representing approximately 4% of Wireline's aggregate revenues.

Competition

The telecommunications industry is highly competitive. Factors contributing to the industry's increasingly competitive market include regulatory changes, product substitution, technological advances, excess network capacity and the entrance of new competitors. In this environment, competition is based on price and pricing plans, the types of services offered, the combination of services into bundled offerings, customer service, the quality and reliability of services provided and the development of new products and services. Current and potential competitors in telecommunication services include cable companies, wireless service providers, long distance companies, other local telephone companies, foreign telecommunications providers, electric utilities, Internet service providers and other companies that offer network services. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth.

Cable Services

Cable competitors have aggressively increased the size and digital capacity of their cable networks. Cable companies have continued to upgrade their networks to offer more digital products and services. They continue to aggressively market competitive bundled offerings that include high-speed internet access, digital television and voice services.

Voice over Internet Protocol Services

Our wireline telecommunications services also face increasing competition from companies which provide VoIP services. These services use the Internet or private broadband networks to transmit voice communications. VoIP

services are available from a wide range of companies including cable companies, long-distance companies, national VoIP providers and regional service providers.

Wireless Services

Wireless services also constitute a significant source of competition to our wireline telecommunications services, especially as wireless carriers (including Verizon Wireless) expand and improve their network coverage and continue to lower their prices. As a result, more consumers are substituting wireless services for basic wireline service. Wireless telephone services can also be used for data transmission.

Local Exchange Services

The ability to offer local exchange services historically has been subject to regulation by state regulatory commissions. Applications from competitors to provide and resell local exchange services have been approved in every jurisdiction in our service territory. The Telecommunications Act of 1996 has significantly increased the level of competition in our local exchange markets.

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As a result of the Telecommunications Act of 1996, which required us to permit potential competitors to purchase our services for resale, or access components of our network on an unbundled basis (UNEs) at a prescribed cost, competition in our local exchange markets continues to increase. Our telephone operations generally have been required to sell their services to CLECs at significant discounts from the prices our telephone operations charge their retail customers. The scope of these obligations going forward and the rates we receive, are subject to ongoing review and revision by the Federal Communications Commission (FCC) and state regulators. See “Regulatory and Competitive Trends.”

Long Distance Services

We offer long distance services regionally and throughout the United States. State regulatory commissions rather than federal authorities generally regulate regional long distance services. Federal regulators have jurisdiction over interstate long distance services. All of our state regulatory commissions (except in Washington, D.C., where regional long distance is not provided) permit other carriers to provide long distance services within the state. Our authority in Alaska is limited to interstate and international services. A number of our major competitors in the long distance business have strong brand recognition and existing customer relationships.

Public Telephone Services

The growth of wireless communications has significantly decreased usage of public telephones, as more customers are substituting wireless services for public telephone services. In addition, we face competition from other providers of public telephone services.

Operator Services

Our operator services product line faces competition from alternative operator services providers and Internet service providers.

Equipment Manufacturers

In addition to producing telecommunications products and computer network devices and systems, equipment

manufacturers may also provide consulting and outsourcing services that compete directly with products and services we offer.

International Competition

Our international business competes primarily with incumbent telephone companies, some of which have special regulatory status and exclusive rights to provide certain services and have historically dominated their local markets. We also compete with other international service providers, some of which are affiliated with incumbent telephone companies in other countries.

Network

Verizon Telecom presently serves a territory of 45.1 million access lines in 28 states and Washington D.C. We continue to upgrade our network in order to provide an ever increasing number of customers with broadband capabilities. Our advanced FiOS network uses state of the art fiber-optic cable and optical electronics to directly link homes and businesses to our network. Our fiber network will offer us the opportunity to provide our customers with improved network reliability and speed for voice, data and video connections. As of the end of 2006, our FiOS network passed more than 6 million homes, doubling the amounts of premises passed from the previous year.

Verizon Business owns and operates one of the most expansive IP backbone networks in the world. The Verizon Business data network includes more than 446,000 route miles, including terrestrial and undersea cable, spanning six continents and access to another 187,000 route miles from Verizon Telecom. Verizon Business provides voice, data and Internet services on its state-of-the-art fiber-optic network to customers in more than 2,700 cities and 150 countries. Verizon Business currently operates eight satellite facilities located throughout the United States and Guam. Verizon Business also operates satellite links to more than 200 teleports worldwide in approximately 110 countries for both government and business customers.

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Wireline Offerings

Verizon Telecom provides a broad array of communications services to our residential and small business customers, including voice, broadband data and video, network access, long-distance and other communications products and services.

•	Voice services include the provision of local exchange services, local private line, wire maintenance, voice messaging and value-added services. Value-added services are a family of services that expand the utilization of our network, including products such as Caller ID, Call Waiting and Return Call.
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•	Broadband data and video services include DSL and FiOS high speed data and FiOS TV services.
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•	Network access services are provided to end-user customers and long distance and other competing carriers who use our local exchange facilities to provide usage services to their customers.
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•	Long-distance services include regional toll and long distance voice and data services.
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•	Other communications products and services include operator services (including deaf relay services), public
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(coin) telephone, as well as former MCI dial around services including 10-10-987, 10-10-220, 1-800 COLLECT and Prepaid phone cards.

Domestic Wireless

Background

Our Domestic Wireless segment, Cellco Partnership doing business as Verizon Wireless (Verizon Wireless), is a joint venture formed in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone Group Plc (Vodafone). Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%.

Operations

Verizon Wireless provides wireless voice and data services across one of the most extensive wireless networks in the U.S. Verizon Wireless is the largest domestic wireless carrier in terms of total revenue and the most profitable, as measured by operating income. We believe, based on publicly available information, that Verizon Wireless has the largest base of retail customers, that is, customers who are directly served and managed by Verizon Wireless and who buy its branded services.

Competition

There is substantial competition in the wireless telecommunications industry. Other wireless providers, including other cellular and PCS operators and resellers, serve each of the markets in which we operate. We currently compete primarily against three other national wireless service providers: AT&T (formerly Cingular), Sprint Nextel and T-Mobile USA. In addition, in many markets we also compete with regional carriers, such as ALLTEL and US Cellular. Competition may increase due to ongoing industry consolidation, if smaller, stand-alone wireless providers transfer licenses to larger, better capitalized and more experienced wireless providers. Resellers, now sometimes referred to as Mobile Virtual Network Operators, who buy bulk wholesale services from facilities-based carriers for resale, provide yet another set of differentiated competitors in the marketplace.

We expect competition for both customers and network usage to intensify as a result of the higher penetration levels that currently exist in the industry, the development and deployment of new technologies, the introduction of new wireless and fixed line products and services, new market entrants, the availability of additional spectrum, both licensed and unlicensed, and regulatory changes. For example, we face increased competition as a result of the use of other high-speed wireless technologies, such as Wi-Fi and WiMAX, which are being deployed or proposed, to meet the growing customer appetite for wireless communications in fixed, nomadic and fully mobile environments. In addition, some cable companies have partnered with wireless carriers, acquired wireless spectrum and are now introducing wireless offerings to their customers. We are also experiencing competition from providers of fixed line VoIP services, which displace in-building usage from cellular/PCS carriers. Additionally, as wireless data proliferates, content is becoming an increasingly significant factor in the appeal of these services. This may give content providers and other participants in the wireless value chain opportunities for increased leverage and/or opportunities to compete for wireless data revenues.

We believe that the following are the most important competitive factors in our industry:

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- *Network reliability, capacity and coverage.* Lower prices, improved service quality and new service offerings have led to increased network usage. As a result, the ability to keep pace with network capacity needs and offer highly reliable national coverage through one's own network is important. We have an extensive national network, and we continue to look for expansion opportunities through the build-out of existing licenses, acquisitions and/or spectrum leasing. We own licenses that cover much of the country but we expect to spend significant amounts to expand our capacity and extend our coverage area and maintain and improve the quality of our network. Our

competitors also have these needs and they are using similar means to address them.

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• *Pricing* . Service and equipment pricing is an important area in which wireless carriers compete, as evidenced by recent increases in the marketing of minutes-sharing plans, free mobile-to-mobile calling, and offerings of larger bundles of included minutes at price points, with no roaming or long distance charges. We seek to compete in this area by offering our customers services and equipment that they will regard as the best available value for their money.

• *Customer service* . Quality customer service is essential to ensure that we can obtain new customers and retain existing customers. We believe that the quality of our customer service is a key factor in retaining our customers and in attracting both new-to-wireless customers and those customers of other carriers who want to switch their wireless service. Our competitors also recognize the importance of customer service and are also focusing on improving the customer experience.

• *Product Differentiation* . As wireless technologies develop and wireless broadband networks proliferate, continued customer and revenue growth will be increasingly dependent on the development of new and differentiated products and services. We are committed to providing customer solutions through the development and rapid deployment of new and innovative products and services developed both internally and in collaboration with application service providers.

• *Sales and Distribution* . Key to achieving sales success in the wireless industry is the reach and quality of sales channels and distribution points. We believe that the optimal mix of direct, indirect and wholesale distribution channels is an important ingredient in achieving industry-leading profitability. A goal of our distribution strategy is to increase sales through our company-operated stores and our outside sales team, as well as through telemarketing and web-based sales and fulfillment capabilities. Supplementing this is an extensive indirect distribution network of retail outlets and prepaid replenishment locations, original equipment manufacturers and value-added distributors, as well as various resellers who buy our service on a wholesale basis.

Our success will depend on our ability to anticipate and respond to various factors affecting the industry, including the factors described above, as well as new technologies, new business models, changes in customer preferences, regulatory changes, demographic trends, economic conditions, and pricing strategies of competitors.

Network

A key part of our business strategy is to provide the highest network reliability. We believe that network reliability is a key differentiator in the U.S. market and a driver of customer satisfaction. Consistent with this strategy, we will continue to build-out, expand and upgrade our network in an effort to provide sufficient capacity and seamless and superior coverage and reliability throughout our licensed area so that our customers can enjoy consistent features and high-quality service, regardless of location. In addition, we will continue to explore strategic opportunities to expand our overall national coverage through selective acquisitions of wireless operations and spectrum licenses.

Our network is among the largest in the U.S., with licensed and operational coverage in 49 of the 50 largest metropolitan areas. Our built network covered a population of approximately 256 million and provided service to 59.1 million customers, as of December 31, 2006.

Network Technology

Our primary network technology platform is CDMA, based on spread-spectrum digital radio technology. CDMA technology's compatible 1XRTT upgrade, a wireless technology developed by Qualcomm as part of its family of technologies known as CDMA2000, is presently deployed in virtually all of our cell sites nationwide. 1XRTT increases the voice traffic capacity available to us and provides increased data rates. Further, 1XRTT is a modular infrastructure upgrade that has proven to be cost-efficient and practical for rapid nationwide deployment. In addition to 1XRTT, in 2004 we began deploying EV-DO (Revision 0), a 3G packet-based technology that is a part of the CDMA2000 technology path. EV-DO is intended primarily for high-speed data transmission. As with 1XRTT, we have been able to implement EV-DO by changing and/or adding modular components and software in our network. EV-DO service, branded and marketed as BroadbandAccess, was available in markets covering a population of approximately 200 million as of December 31, 2006. Coverage expansions and additional market launches are planned for 2007. In addition, during 2006, we began deploying EV-DO (Revision A) infrastructure that will enable faster data rates.

Spectrum

We have licenses to provide mobile wireless services on the 800-900 MHz and 1800 -1900 MHz portions of the radio spectrum. In addition, we recently acquired Advanced Wireless Services spectrum on the 1700 and 2100 MHz portions of the radio spectrum, which we anticipate using for advanced wireless broadband services. Collectively, these licenses cover territories in which approximately 292 million people, or approximately 99% of the estimated U.S. population, reside. The 800-900 MHz portion is used to provide both analog and digital cellular voice and data services, while our 1800-1900 MHz portion provides all-digital PCS voice and data services. Our digital wireless service is available to all of the population to which we provide coverage. Digital usage currently accounts for more than 99% of our busy-hour traffic. While we provide digital coverage in all of our markets, we will continue to simultaneously provide analog coverage in our cellular markets. The FCC will no longer require cellular carriers to provide analog cellular service as of February 18, 2008, and our intent is to no longer offer such service after that date.

Recent Acquisitions

On November 29, 2006, we were granted thirteen 20 MHz licenses we won in an FCC auction of Advanced Wireless Services spectrum that concluded on September 18, 2006, for which we had bid a total of \$2,809 million. These licenses, which we anticipate using for the provision

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of advanced wireless broadband services, cover a population of nearly 200 million. We have made all required payments to the FCC for these licenses.

In August 2002, Verizon Wireless and Price Communications Corp. (Price) combined Price's wireless business with a portion of Verizon Wireless. The resulting limited partnership, Verizon Wireless of the East LP (VZ East), is controlled and managed by Verizon Wireless. In exchange for its contributed assets, Price received a limited partnership interest in the new partnership which was exchangeable into the common stock of Verizon Wireless if an initial public offering of that stock occurred, or into the common stock of Verizon on the fourth anniversary of the asset contribution date. On August 15, 2006, Verizon delivered 29.5 million shares of newly-issued Verizon common stock to Price valued at \$1,007 million in exchange for Price's limited partnership interest in VZ East. As a result of acquiring Price's limited partnership interest, Verizon recorded goodwill of \$345 million in the third quarter of 2006 attributable to its Domestic Wireless segment.

Wireless Offerings

We believe that increasing the value of our service offerings to customers will help us to retain our existing customers, attract new customers and increase customer usage, all of which will, in turn, drive revenue and net income growth.

Our service packages are designed around key customer groups, from the young adult market to multinational business accounts. We tailor our wireless services, which include both voice and data offerings, and postpaid and prepaid pricing options, to the needs of these customers.

Wireless Services

Voice services. We offer a variety of packages for voice services with features and competitive pricing plans that are predominantly offered on a postpaid basis with a contract term. Specifically, we offer our *America's Choice* plans, which provide a choice in amounts of bundled minutes together with no roaming or long distance charges for calls on our preferred network; family/small group and shared minute plans for multiple-user households and small businesses; and plans targeted to business accounts with over 100 lines and national accounts with over 1,000 lines. In addition, we offer a national prepaid product that enables individuals to obtain wireless voice services without a long-term contract by paying in advance.

Data services. We believe that we are in a strong position to take advantage of the growing demand for wireless data services. Our strategy is to continue to expand our wireless data, messaging and multi-media offerings for both consumer and business customers.

We offer an array of data transmission and content services, such as:

• *BroadbandAccess/NationalAccess* . EV-DO, our Wide Area Network packet IP solution, which we market as BroadbandAccess, provides significantly increased data transmission rates on existing applications and enables the provisioning of enhanced data applications that can operate at broadband speeds. In addition, our 1XRTT digital technology, which we market as NationalAccess, enables higher-speed applications, such as e-mail, enterprise applications, image downloads, and full browsing capabilities for laptop computer users.

• *Text and Picture Messaging* . With compatible wireless devices, our customers can send and receive text messages, as well as still pictures and full-motion video clips with sound.

• *VCAST* . Our V CAST service, available on EV-DO-enabled handsets, enables customers to access daily-updated videos from leading content providers of current news, weather, sports and entertainment programming. In addition, our V CAST Music service enables customers to download music either directly to their V CAST Music-enabled phones or to their personal computers.

• *Get It Now* . Our *Get It Now* service enables our customers to download hundreds of applications to their handsets, such as ring tones, games and wallpapers .

• *Mobile Web* . Our Mobile Web service offers customized access to content through our portal, and allows customers to access the Internet, e-mail and personal information management tools, such as calendars and address books, through handset-based menus.

• *Location Based Services (LBS)* . Our location-based service, VZ Navigator, enables customers to obtain audible turn-by-turn directions to their destination, locate various points of interest and access other location-related information by using VZ Navigator-capable handsets.

• *Wireless Business Solutions - VZOffice* . Through our suite of *VZOffice* services, we provide enterprise customers

solutions for accessing the Internet and corporate intranet, which allow for optimized wireless access to the customer's corporate applications or databases. In addition, we offer our corporate customers the ability to wirelessly send and receive e-mail using various handheld devices, including wirelessly equipped PDA devices.

Wireless Device

We believe our position in the U.S. wireless industry has enabled us to become a service provider of choice for wireless device manufacturers and has helped us to develop exclusive offers for our customers and branded handsets that complement our focus on high-quality service and an optimal user experience. The wireless devices that we offer are predominantly EV-DO enabled, and all of them are compatible with our 1XRTT

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network. In addition, all of the handsets that we offer are headphone/earphone compatible and, through GPS functionality, compliant with the FCC's E-911 requirements.

Marketing

We focus our marketing strategy on targeting solutions based upon our customers' needs, promoting our brand, leveraging our extensive distribution network and cross-marketing with our owners.

Our marketing efforts are focused on a coordinated program of television, print, radio, outdoor signage, Internet and point-of-sale media promotions. We coordinate our marketing efforts throughout our service area in order to ensure that our marketing message is consistently presented across all of our markets. Our promotion of the "Verizon Wireless" brand is complemented by Verizon Communications' own brand marketing efforts, reinforcing the awareness of our services in shared markets and capitalizing on the size and breadth of Verizon Communications' customer base.

Sales and Distribution Channels

Our sales strategy is to use a mix of direct, indirect and wholesale distribution channels in order to increase customer growth while reducing customer acquisition costs.

Our company-operated stores are a core component of our distribution strategy. Our experience has been that customers entering through this direct channel are generally higher-value customers who generate higher revenue per month on average and are less likely to cancel their service than those who come through other mass-market channels. We had 2,231 company-operated stores and kiosks (including our "store-within-a-store" kiosks in Circuit City and BJ's Wholesale locations) as of December 31, 2006. In addition, our direct channel also includes our business-to-business organization, which is focused on supporting the needs of our local, regional and national business customers, as well as a telemarketing sales force dedicated to receiving incoming calls. We also offer fully-automated, end-to-end, web-based sales of wireless handsets, accessories and service in all of our markets.

We have indirect retail locations throughout the U.S. selling wireless services, including both full-service locations and locations selling our prepaid products and services, such as Wal-Mart and Target. We also sell wireless access on a wholesale basis. Our wholesale business involves the sale of wholesale access and minutes to independent companies that package and resell wireless services to end-users.

Customer Service, Retention and Satisfaction

We believe that quality customer service increases customer satisfaction, which reduces churn, and is a key differentiator in the wireless industry. We are committed to providing high-quality customer service, investing in loyalty and retention efforts and continually monitoring customer satisfaction in all facets of our service.

While our customer service representatives are available during our normal business hours, we also have representatives available 24 hours a day, 7 days a week for emergency and technical customer issues. In addition, customers can do business with us at any time, without having to speak with a customer service representative, through our enhanced self-service applications via our interactive voice response system, through our web site, and via applications accessible from the customer's handset.

Under our enhanced Worry Free Guarantee, a national retention and loyalty initiative, we commit to our customers an extensive and advanced network, responsive customer service with end-to-end resolution, the option to change at any time to any qualifying price plan without payment of any additional fees, a satisfaction guarantee, an early termination fee that declines each full month that a customer remains on their contract and, for customers who do business with us on line, free back-up protection that stores a copy of the customer's phone list on a secure website. The initiative also includes a handset upgrade credit every two years, provided that the customer signs a new two-year contract on a calling plan with at least \$35 monthly access. Another major retention and loyalty program is a customer life cycle management program in which we contact customers at key points in their service tenure with targeted offers and to provide proactive rate-plan analysis.

Regulatory and Competitive Trends

Competition and Regulation

Technological, regulatory and market changes have provided Verizon both new opportunities and challenges. These changes have allowed Verizon to offer new types of services in this increasingly competitive market. At the same time, they have allowed other service providers to broaden the scope of their own competitive offerings. Current and potential competitors for network services include other telephone companies, cable companies, wireless service providers, foreign telecommunications providers, satellite providers, electric utilities, Internet service providers, providers of VoIP services, and other companies that offer network services using a variety of technologies. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth. Many of our competitors also remain subject to fewer regulatory constraints than Verizon.

We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new opportunities.

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FCC Regulation

Our services are subject to the jurisdiction of the FCC with respect to interstate telecommunications services and other matters for which the FCC has jurisdiction under the Communications Act of 1934, as amended ("Communications Act"). The Communications Act generally obligates us not to charge unjust or unreasonable rates nor engage in unreasonable discrimination when we are providing services as a common carrier, and regulates some of the rates, terms and conditions under which we provide certain services. The FCC also has

adopted regulations governing various aspects of our business, such as the following: (i) use and disclosure of customer proprietary network information; (ii) telemarketing; (iii) assignment of telephone numbers to customers; (iv) provision to law enforcement agencies of the capability to obtain call identifying information and call content information from calls pursuant to lawful process; (v) accessibility of services and equipment to individuals with disabilities if readily achievable; (vi) interconnection with the networks of other carriers; and (vii) customers' ability to keep (or "port") their telephone numbers when switching to another carrier. In addition, we pay various fees to support other FCC programs, such as the universal service program discussed below. Changes to these mandates, or the adoption of additional mandates, could require us to make changes to our operations or otherwise increase our costs of compliance.

Broadband

The FCC has adopted a series of orders that recognize the competitive nature of the broadband market, and impose lesser regulatory requirements on broadband services and facilities than apply to narrowband. With respect to facilities, the FCC has determined that certain unbundling requirements that apply to narrowband facilities do not apply to broadband facilities such as fiber to the premise loops and packet switches. With respect to services, the FCC has concluded that broadband Internet access services offered by telephone companies and their affiliates qualify as largely deregulated information services. The same order also concluded that telephone companies may offer the underlying broadband transmission services that are used as an input to Internet access services through private carriage arrangements on negotiated commercial terms. In addition, a Verizon petition asking the FCC to forbear from applying common carrier regulation to certain broadband services sold primarily to larger business customers when those services are not used for Internet access was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. Both the FCC's order addressing the appropriate regulatory treatment of broadband Internet access services and the relief obtained through the forbearance petition are the subject of pending appeals.

Video

The FCC has a body of rules that apply to cable operators under Title VI of the Communications Act, and these rules also generally apply to telephone companies that provide cable services over their networks. In addition, companies that provide cable service over a cable system generally must obtain a local cable franchise. On December 21, 2006, the FCC announced the adoption of rules under Section 621 of the Communications Act to set parameters consistent with federal law, on the timing and scope of franchise negotiations by local franchising authorities.

Interstate Access Charges and Intercarrier Compensation

The current framework for interstate access rates was established in the Coalition for Affordable Local and Long Distance Services (CALLS) plan, which the FCC adopted on May 31, 2000. The CALLS plan has three main components. First, it establishes portable interstate access universal service support of \$650 million for the industry that replaces implicit support previously embedded in interstate access charges. Second, the plan simplifies the patchwork of common line charges into one subscriber line charge (SLC) and provides for de-averaging of the SLC by zones and class of customers. Third, the plan set into place a mechanism to transition to a set target of \$.0055 per minute for switched access services. Once that target rate is reached, local exchange carriers are no longer required to make further annual price cap reductions to their switched access prices. As a result of tariff adjustments which became effective in July 2003, virtually all of our switched access lines reached the \$.0055 benchmark.

The FCC currently is conducting a broad rulemaking proceeding to consider new rules governing intercarrier compensation including, but not limited to, access charges, compensation for Internet traffic, and reciprocal compensation for local traffic. The FCC has sought comments about intercarrier compensation in general, and has requested input on several specific reform proposals.

The FCC also has pending before it issues relating to intercarrier compensation for dial-up Internet-bound traffic.

The FCC previously found that this traffic is not subject to reciprocal compensation under Section 251(b)(5) of the Telecommunications Act of 1996. Instead, the FCC established federal rates per minute for this traffic that declined from \$.0015 to \$.0007 over a three-year period, established caps on the total minutes of this traffic subject to compensation in a state, and required incumbent local exchange carriers to offer to both bill and pay reciprocal compensation for local traffic at the same rate as they are required to pay on Internet-bound traffic. The U.S. Court of Appeals for the D.C. Circuit rejected part of the FCC's rationale, but declined to vacate the order while it is on remand. As a result, pending further action by the FCC, the FCC's underlying order remains in effect. The FCC subsequently denied a petition to discontinue the \$.0007 rate cap on this traffic, but removed the caps on the total minutes of Internet-bound traffic subject to compensation. That decision has been upheld on appeal. Disputes also remain pending in a number of forums relating to the appropriate compensation for Internet-bound traffic during previous periods under the terms of our interconnection agreements with other carriers.

The FCC also is conducting a rulemaking proceeding to address the regulation of services that use Internet protocol, including whether access charges should apply to voice or other Internet protocol services. The FCC also considered several petitions asking whether, and under what circumstances, services that employ Internet protocol are subject to access charges. The FCC previously has held that one provider's peer-to-peer Internet protocol service that does not use the public switched network is an interstate information service and is not subject to access charges, while a service that utilizes Internet protocol for only one intermediate part of a call's transmission is a telecommunications service that is subject to access charges. Another petition asking the FCC to forbear from applying access charges to voice over Internet protocol services

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that are terminated on switched local exchange networks was withdrawn by the carrier that filed that petition. The FCC also declared the services offered by one provider of a voice over Internet protocol service to be jurisdictionally interstate on the grounds that it was impossible to separate that carrier's Internet protocol service into interstate and intrastate components. The FCC also stated that its conclusion would apply to other services with similar characteristics. That order has been appealed.

The FCC also has adopted rules for special access services that provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met. More than half of special access revenues are now removed from price regulation. The FCC currently has a rulemaking proceeding underway to evaluate experience under its pricing flexibility rules, and to determine whether any changes to those rules are warranted.

Universal Service

The FCC also has a body of rules implementing the universal service provisions of the Telecommunications Act of 1996, including rules governing support to rural and non-rural high-cost areas, support for low income subscribers, and support for schools, libraries and rural health care. The FCC's current rules for support to high-cost areas served by larger "non-rural" local telephone companies were previously remanded by U.S. Court of Appeals for the Tenth Circuit, which had found that the FCC had not adequately justified these rules. The FCC has initiated a rulemaking proceeding in response to the court's remand, but its rules remain in effect pending the results of the rulemaking. The FCC also has proceedings underway to evaluate possible changes to its current rules for assessing contributions to the universal service fund. As an interim step, in June 2006, the FCC ordered that providers of VoIP services are subject to federal universal service obligations. The FCC also increased the percentage of revenues subject to federal universal service obligations that wireless providers may use as a safe harbor. These decisions are the subject of a pending appeal. Any further change in the current assessment mechanism could result in a change in the contribution that local telephone companies, wireless carriers or others must make and that would have to be collected from customers.

Unbundling of Network Elements

Under Section 251 of the Telecommunications Act of 1996, incumbent local exchange carriers were required to provide competing carriers with access to components of their network on an unbundled basis, known as UNEs, where certain statutory standards are satisfied. The Telecommunications Act of 1996 also adopted a cost-based pricing standard for these UNEs, which the FCC interpreted as allowing it to impose a pricing standard known as “total element long run incremental cost” or “TELRIC.” The FCC’s rules defining the unbundled network elements that must be made available at TELRIC prices have been overturned on multiple occasions by the courts. In its most recent order issued in response to these court decisions, the FCC eliminated the requirement to unbundle mass market local switching on a nationwide basis, with the obligation to accept new orders ending as of the effective date of the order (March 11, 2005). The FCC also established a one year transition for existing UNE switching arrangements. For high capacity transmission facilities, the FCC established criteria for determining whether high capacity loops, transport or dark fiber transport must be unbundled in individual wire centers, and stated that these standards were only expected to affect a small number of wire centers. The FCC also eliminated the obligation to provide dark fiber loops and found that there is no obligation to provide UNEs exclusively for wireless or long distance service. In any instance where a particular high capacity facility no longer has to be made available as a UNE, the FCC established a similar one year transition for any existing high capacity loop or transport UNEs, and an 18 month transition for any existing dark fiber UNEs. This decision has been upheld on appeal.

As noted above, the FCC has concluded that the requirement under Section 251 of the Telecommunications Act of 1996 to provide unbundled network elements at TELRIC prices generally does not apply with respect to broadband facilities, such as fiber to the premises loops, the packet-switched capabilities of hybrid loops and packet switching. The FCC also has held that any separate unbundling obligations that may be imposed by Section 271 of the Telecommunications Act of 1996 do not apply to these same facilities. The decision with respect to Section 271 has been upheld on appeal and a petition for rehearing of that appellate order was denied.

Wireless Services

The FCC regulates the licensing, construction, operation, acquisition and transfer of wireless communications systems, including the systems that Verizon Wireless operates, pursuant to the Communications Act, other legislation, and the FCC’s rules. The FCC and Congress continuously consider changes to these laws and rules. Adoption of new laws or rules may raise the cost of providing service or require modification of Verizon Wireless’ business plans or operations.

To use the radio frequency spectrum, wireless communications systems must be licensed by the FCC to operate the wireless network and mobile devices in assigned spectrum segments. Verizon Wireless holds FCC licenses to operate in several different radio services, including the cellular radiotelephone service, personal communications service, advanced wireless service, and point-to-point radio service. The technical and service rules, the specific radio frequencies and amounts of spectrum we hold, and the sizes of the geographic areas we are authorized to operate in, vary for each of these services. However, all of the licenses Verizon Wireless holds allow it to use spectrum to provide a wide range of mobile and fixed communications services, including both voice and data services, and Verizon Wireless operates a seamless network that utilizes those licenses to provide services to customers. Because the FCC issues licenses for only a fixed time, generally 10 years, Verizon Wireless must periodically seek renewal of those licenses. Although the FCC has routinely renewed all of Verizon Wireless’ licenses that have come up for renewal to date, challenges could be brought against the licenses in the future. If a wireless license were revoked or not renewed upon expiration, Verizon Wireless would not be permitted to provide services on the licensed spectrum in the area covered by that license.

The FCC has also imposed specific mandates on carriers that operate wireless communications systems, which increase Verizon Wireless’ costs. These mandates include requirements that Verizon Wireless: (i) meet specific construction and geographic coverage requirements during the license term; (ii) meet technical operating standards that, among other things, limit the radio frequency radiation from mobile devices and antennas; (iii) deploy “Enhanced 911” wireless services that provide the wireless caller’s number, location and other information upon request by a state or local public safety agency that handles 911 calls; and (iv) comply with regulations for the construction of transmitters and towers that, among other things, restrict siting of towers in environmentally

sensitive locations and in places where the towers would affect a site listed

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or eligible for listing on the National Register of Historic Places. Changes to these mandates could require Verizon Wireless to make changes to operations or increase its costs of compliance.

The Communications Act imposes restrictions on foreign ownership of U.S. wireless systems. The FCC has approved the interest that Vodafone Group Plc holds, through various of its subsidiaries, in Verizon Wireless. The FCC may need to approve any increase in Vodafone's interest or the acquisition of an ownership interest by other foreign entities. In addition, as part of the FCC's approval of Vodafone's ownership interest, Verizon Wireless, Verizon and Vodafone entered into an agreement with the U.S. Department of Defense, Department of Justice and Federal Bureau of Investigation which imposes national security and law enforcement-related obligations on the ways in which Verizon Wireless stores information and otherwise conducts its business.

Verizon Wireless anticipates that it will need additional spectrum to meet future demand. It can meet spectrum needs by purchasing licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the FCC. Under the Communications Act, before Verizon Wireless can acquire a license from another licensee in order to expand its coverage or its spectrum capacity in a particular area, it must file an application with the FCC, and the FCC can grant the application only after a period for public notice and comment. This review process can delay acquisition of spectrum needed to expand services. The Communications Act also requires the FCC to award new licenses for most commercial wireless services through a competitive bidding process in which spectrum is awarded to bidders in an auction. Verizon Wireless has participated in spectrum auctions to acquire licenses in the personal communication service and most recently the advanced wireless service. However, the timing of future auctions, and the spectrum being sold, may not match Verizon Wireless' needs, and the company may not be able to secure the spectrum in the auction.

The FCC is also conducting several proceedings to explore whether and how to use spectrum more intensively by, for example, allowing unlicensed wireless devices to operate in licensed spectrum bands. These proceedings could increase radio interference to Verizon Wireless' operations from other spectrum users, or allow other users to share its spectrum. These changes may adversely impact the ways in which it uses spectrum, the capacity of that spectrum to carry traffic, and the value of that spectrum.

State Regulation and Local Approvals

Telephone Operations

State public utility commissions regulate our telephone operations with respect to certain telecommunications intrastate rates and services and other matters. Our competitive local exchange carrier and long distance operations are generally classified as nondominant and lightly regulated the same as other similarly situated carriers. Our incumbent local exchange operations are generally classified as dominant. These latter operations predominantly are subject to alternative forms of regulation (AFORs) in the various states, although they remain subject to rate of return regulation in a few states. Arizona, Illinois, Nevada, New Hampshire, Oregon and Washington are rate of return regulated with various levels of pricing flexibility for competitive services. California, Connecticut, Delaware, the District of Columbia, Florida, Indiana, Maryland, Michigan, Maine, Massachusetts, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, West Virginia and Wisconsin are under AFORs with various levels of pricing flexibility, detariffing, and service quality standards. None of the AFORs include earnings regulation. In Idaho, Verizon has made the election under a recent statutory amendment into a deregulatory regime that phases out all price regulation.

Video

Companies that provide cable service over a cable system are typically subject to state and/or local cable television rules and regulations. As noted above, cable operators generally must obtain a local cable franchise from each local unit of government prior to providing cable service in that local area. Some states have recently enacted legislation that enables cable operators to apply for, and obtain, a single cable franchise at the state, rather than local, level. To date, Verizon has applied for and received state-issued franchises in Indiana, New Jersey and Texas. California has enacted statewide franchise reform legislation, but has not yet finalized implementing rules.

Wireless Services

The rapid growth of the wireless industry has led to an increase in efforts by some state legislatures and state public utility commissions to regulate the industry in ways that may impose additional costs on Verizon Wireless. The Communications Act generally preempts regulation by state and local governments of the entry of, or the rates charged by, wireless carriers. Although a state may petition the FCC to allow it to impose rate regulation, no state has done so. In addition, the Communications Act does not prohibit the states from regulating the other “terms and conditions” of wireless service. While numerous state commissions do not currently have jurisdiction over wireless services, state legislatures may decide to grant them such jurisdiction, and those commissions that already have authority to impose regulations on wireless carriers may adopt new rules.

State efforts to regulate wireless services have included proposals to regulate customer billing, termination of service, trial periods for service, advertising, network outages, the use of handsets while driving, and the provision of emergency or alert services. Over the past several years, only a few states have imposed regulation in one or more of these areas, and in 2006 a federal appellate court struck down one such state statute, but Verizon Wireless expects these efforts to continue. Some states also impose their own universal service support regimes on wireless and other telecommunications carriers, and other states are considering whether to create such regimes.

Verizon Wireless (as well as AT&T (formerly Cingular) and Sprint-Nextel) is a party to an Assurance of Voluntary Compliance (“AVC”) with 33 State Attorneys General. The AVC, which generally reflected Verizon Wireless’ practices at the time it was entered into in July 2004, obligates the company to disclose certain rates and terms during a sales transaction, to provide maps depicting coverage, and to comply with various requirements regarding advertising, billing, and other practices.

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At the state and local level, wireless facilities are subject to zoning and land use regulation. Under the Communications Act, neither state nor local governments may categorically prohibit the construction of wireless facilities in any community or take actions, such as indefinite moratoria, which have the effect of prohibiting service. Nonetheless, securing state and local government approvals for new tower sites has been and is likely to continue to be a difficult, lengthy and expensive process. Finally, state and local governments continue to impose new or higher fees and taxes on wireless carriers.

Recent Developments

MCI Merger

On January 6, 2006, Verizon acquired 100% of the outstanding common stock of MCI, Inc. (MCI) for a combination of Verizon common shares and cash. MCI was a global communications company that provided Internet, data and voice communication services to businesses and government entities throughout the world and consumers in the United States.

On April 9, 2005, Verizon entered into a stock purchase agreement with eight entities affiliated with Carlos Slim Helú to purchase 43.4 million shares of MCI common stock for \$25.72 per share in cash plus an additional cash amount of 3% per annum from April 9, 2005, until the closing of the purchase of those shares. The transaction closed on May 17, 2005. The total cash payment was \$1,121 million and the investment was accounted for as a cost investment. No payments were made under a provision that required Verizon to pay an additional amount at the end of one year to the extent that the price of Verizon's common stock exceeded \$35.52 per share. We received a special dividend of \$5.60 per MCI share on these 43.4 million MCI shares, or \$243 million, on October 27, 2005.

Under the terms of the merger agreement, MCI shareholders received .5743 shares of Verizon common stock (\$5,050 million in the aggregate) and cash of \$2.738 (\$779 million in the aggregate) for each of their MCI shares. The merger consideration was equal to \$20.40 per MCI share, excluding the \$5.60 per share special dividend paid by MCI to its shareholders on October 27, 2005. There was no purchase price adjustment.

Price Communications

In August 2002, Verizon Wireless and Price Communications Corp. (Price) combined Price's wireless business with a portion of Verizon Wireless. The resulting limited partnership, Verizon Wireless of the East LP (VZ East), is controlled and managed by Verizon Wireless. In exchange for its contributed assets, Price received a limited partnership interest in the new partnership which was exchangeable into the common stock of Verizon Wireless if an initial public offering of that stock occurred, or into the common stock of Verizon on the fourth anniversary of the asset contribution date. On August 15, 2006, Verizon delivered 29.5 million shares of newly-issued Verizon common stock to Price valued at \$1,007 million in exchange for Price's limited partnership interest in VZ East. As a result of acquiring Price's limited partnership interest, Verizon recorded goodwill of \$345 million in the third quarter of 2006 attributable to its Domestic Wireless segment.

Disposition of Businesses and Investments

Verizon Dominicana C. por A., Telecomunicaciones de Puerto Rico, Inc., and Compañía Anónima Nacional Teléfonos de Venezuela

During the second quarter of 2006, we reached definitive agreements to sell our interests in our Caribbean and Latin American telecommunications operations in three separate transactions to América Móvil, S.A. de C.V. (América Móvil), a wireless service provider throughout Latin America, and a company owned jointly by Teléfonos de México, S.A. de C.V. (Telmex) and América Móvil. We agreed to sell our 100 percent indirect interest in Verizon Dominicana C. por A. (Verizon Dominicana) and our 52 percent interest in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) to América Móvil. An entity jointly owned by América Móvil and Telmex agreed to purchase our indirect 28.5 percent interest in Compañía Anónima Nacional Teléfonos de Venezuela (CANTV).

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS No. 144) we have classified the results of operations of Verizon Dominicana and TELPRI as discontinued operations. CANTV continues to be accounted for as an equity method investment.

On December 1, 2006, we closed the sale of Verizon Dominicana. The transaction resulted in net pretax cash proceeds of \$2,042 million, net of a purchase price adjustment of \$373 million. The U.S. taxes that became payable and were recognized at the time the transaction closed exceeded the \$30 million pretax gain resulting in an after-tax loss of \$541 million.

We expect to close the sale of our interest in TELPRI in 2007 subject to the receipt of regulatory approvals and in accordance with the terms of the definitive agreement. We expect that the sale will result in approximately \$900 million in net pretax cash proceeds.

During the second quarter of 2006, we entered into a definitive agreement to sell our indirect 28.5% interest in CANTV to an entity jointly owned by America Movil and Telmex for estimated pretax proceeds of \$677 million. Regulatory authorities in Venezuela never commenced the formal review of that transaction and the related tender offers for the remaining equity securities of CANTV. On February 8, 2007, after two prior extensions, the parties terminated the stock purchase agreement because the parties mutually concluded that the regulatory approvals would not be granted by the Government.

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In January 2007, the Bolivarian Republic of Venezuela (the Republic) declared its intent to nationalize certain companies, including CANTV. On February 12, 2007, we entered into a Memorandum of Understanding (MOU) with the Republic. The MOU provides that the Republic will offer to purchase all of the equity securities of CANTV through public tender offers in Venezuela and the United States at a price equivalent to \$17.85 per ADS. If the tender offers are completed, the aggregate purchase price for Verizon's shares would be \$572 million. If the 2007 dividend that has been recommended by the CANTV Board is approved by shareholders and paid prior to the closing of the tender offers, this amount will be reduced by the amount of the dividend. Verizon has agreed to tender its shares if the offers are commenced. The Republic has agreed to commence the offers within forty-five days assuming the satisfactory completion of its due diligence investigation of CANTV. The tender offers are subject to certain conditions including that a majority of the outstanding shares are tendered to the Government and receipt of regulatory approvals. Based upon the terms of the MOU and our current investment balance in CANTV, we expect that we will record a loss on our investment in the first quarter of 2007. The ultimate amount of the loss depends on a variety of factors, including the successful completion of the tender offer and the satisfaction of other terms in the MOU.

Spin-off of Verizon Information Services

On November 17, 2006 we completed the spin-off of Idearc to shareowners of Verizon. Verizon distributed a dividend of one share of Idearc common stock for every 20 shares of Verizon common stock. Cash was paid for fractional shares. The distribution of Idearc common stock is considered a tax free transaction for us and for our shareowners, except for the cash payments for fractional shares which are generally taxable. Idearc now owns what was the Verizon domestic print and Internet yellow pages directories publishing operations, which had been the principal component of our Information Services segment. This transaction resulted in an increase of nearly \$9 billion in shareowners' equity, as well as a reduction of total debt by more than \$7 billion and we received approximately \$2 billion in cash.

Telephone Access Lines Spin-off

On January 16, 2007, we announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) that will result in Verizon establishing a separate entity for its local exchange and related business assets in Maine, New Hampshire and Vermont, spinning off that new entity to Verizon's shareowners, and immediately merging it with and into FairPoint.

Upon the closing of the transaction, Verizon shareowners will own approximately 60 percent of the new company and FairPoint stockholders will own approximately 40 percent. Verizon Communications will not own any shares in FairPoint after the merger. In connection with the merger, Verizon shareowners will receive one share of FairPoint stock for approximately every 55 shares of Verizon stock held as of the record date. Both the spin-off and merger are expected to qualify as tax-free transactions, except to the extent that cash is paid to Verizon shareowners in lieu of fractional shares.

The total value to be received by Verizon and its shareowners in exchange for these operations will be approximately \$2,715 million. Verizon shareowners will receive approximately \$1,015 million of FairPoint

common stock in the merger, based upon FairPoint's recent stock price and the terms of the merger agreement. Verizon will receive \$1,700 million in value through a combination of cash distributions to Verizon and debt securities issued to Verizon prior to the spin-off. Verizon may exchange these newly issued debt securities for certain debt that was previously issued by Verizon, which would have the effect of reducing Verizon's then-outstanding debt.

Redemption of Debt

Debt assumed from MCI merger

On January 17, 2006, Verizon announced offers to purchase two series of MCI senior notes, MCI \$1,983 million aggregate principal amount of 6.688% Senior Notes Due 2009 and MCI \$1,699 million aggregate principal amount of 7.735% Senior Notes Due 2014, at 101% of their par value. Due to the change in control of MCI that occurred in connection with the merger with Verizon on January 6, 2006, Verizon was required to make this offer to noteholders within 30 days of the closing of the merger of MCI and Verizon. Separately, Verizon notified noteholders that MCI was exercising its right to redeem both series of Senior Notes prior to maturity under the optional redemption procedures provided in the indentures. The 6.688% Notes were redeemed on March 1, 2006, and the 7.735% Notes were redeemed on February 16, 2006.

In addition, on January 20, 2006, Verizon announced an offer to repurchase MCI \$1,983 million aggregate principal amount of 5.908% Senior Notes Due 2007 at 101% of their par value. On February 21, 2006, \$1,804 million of these notes were redeemed by Verizon. Verizon satisfied and discharged the indenture governing this series of notes shortly after the close of the offer for those noteholders who did not accept this offer.

Zero-Coupon Convertible Notes

Previously, Verizon Global Funding issued approximately \$5,442 million in principal amount at maturity of zero-coupon convertible notes due 2021 which were callable by Verizon on or after May 15, 2006. On May 15, 2006, we redeemed the remaining \$1,375 million accreted principal of the outstanding zero-coupon convertible notes at a redemption price of \$639.76 per \$1,000 principal plus interest of approximately \$0.5767 per \$1,000 principal. The total payment on the date of redemption was approximately \$1,377 million.

Other Debt Redemptions/Prepayments

Other debt redemptions/prepayments included approximately \$697 million of outstanding debt issuances at various rates associated with our operating telephone companies. Original maturity dates ranged from 2010 through 2026.

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On December 15, 2006, Verizon Wireless's six year 5.375% fixed rate note of \$2.5 billion matured. At December 31, 2006, Verizon Wireless had no third-party debt outstanding.

On January 8, 2007, we redeemed the remaining \$1,580 million of the outstanding notes of the Verizon Communications Inc. floating rate notes due 2007.

The gain/(loss) on these redemptions and prepayments were immaterial.

Issuance of Debt

In February 2006, Verizon issued \$4,000 million of floating rate and fixed rate notes maturing from 2007 through

Spectrum Purchases

On November 29, 2006, we were granted thirteen 20 MHz licenses we won in an FCC auction of Advanced Wireless Services spectrum that concluded on September 18, 2006, for which we had bid a total of \$2,809 million. These licenses, which we anticipate using for the provision of advanced wireless broadband services, cover a population of nearly 200 million. We have made all required payments to the FCC for these licenses.

Environmental Matters

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments may also be made based upon actual conditions discovered during the remediation at any of the sites requiring remediation.

New York Recovery Funding

In August 2002, President Bush signed the Supplemental Appropriations bill that included \$5.5 billion in New York recovery funding. Of that amount, approximately \$750 million has been allocated to cover utility restoration and infrastructure rebuilding as a result of the September 11th terrorist attacks on lower Manhattan. These funds will be distributed through the Lower Manhattan Development Corporation following an application and audit process. As of September 2004, we had applied for reimbursement of approximately \$266 million under Category One, although we did not record this amount as a receivable. We received advances totaling \$88 million in connection with this application process. On December 22, 2004, we applied for reimbursement of an additional \$136 million of Category Two losses, and on March 29, 2005 we amended our application seeking an additional \$3 million. Category Two funding is for permanent restoration and infrastructure improvement. According to the plan, permanent restoration is reimbursed up to 75% of the loss. On November 3, 2005, we received the results of preliminary audit findings disallowing all but \$44 million of our \$266 million of Category One application. On December 8, 2005, we provided a detailed rebuttal to the preliminary audit findings. We received a copy of the final audit report for Verizon's Category One applications and, on January 4, 2007, we filed an appeal of the final audit report. That appeal, as well as our Category Two applications, are pending.

Employees

As of December 31, 2006, Verizon and its subsidiaries had approximately 242,000 employees. Unions represent approximately 40% of our employees.

Information on Our Internet Website

We make available, free of charge on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). Our website address is www.verizon.com. This information is included in "Investor Information" on our website.

Cautionary Statement Concerning Forward-Looking Statements

In this Annual Report on Form 10-K we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words “anticipates,” “believes,” “estimates,” “hopes” or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this Annual Report, could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

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- materially adverse changes in economic and industry conditions and labor matters, including workforce levels and labor negotiations, and any resulting financial and/or operational impact, in the markets served by us or by companies in which we have substantial investments;

- material changes in available technology, including disruption of our suppliers’ provisioning of critical products or services;

- technology substitution;

- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations;

- the final results of federal and state regulatory proceedings concerning our provision of retail and wholesale services and judicial review of those results;

- the effects of competition in our markets;

- the timing, scope and financial impacts of our deployment of fiber-to-the-premises broadband technology;

- the ability of Verizon Wireless to continue to obtain sufficient spectrum resources;

- changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings;

- the timing of the closings of the sales of our Latin American and Caribbean properties; and

- the extent and timing of our ability to obtain revenue enhancements and cost savings following our business

combination with MCI, Inc.

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Item 1A. Risk Factors

We face significant competition that may reduce our market share and lower our profits.

We face significant competition in our industry. The rapid development of new technologies, services and products has eliminated the traditional lines between local, long distance, wireless, cable and Internet communication services and brought new competitors to our markets, including other telephone companies, cable companies, wireless service providers, satellite providers, electric utilities, and providers of VoIP services. While these changes have enabled us to offer new types of services, they have also allowed other service providers to broaden the scope of their own competitive offerings. Our ability to compete successfully will depend on how successfully we anticipate and respond to various competitive factors, including new services that may be introduced by our competitors, changes in consumer preferences, demographic trends and pricing pressures. Because we are subject to more regulation and have higher cost structures than many of our competitors, due in part to the presence of a unionized workforce and a large retiree population in our wireline business, our competitors may be able to offer services at lower prices. The resulting pressure on the price of services provided by us may result in reduced revenues and reduction of profits. In addition, while the workforce of our wireless business is almost entirely non-union, we cannot predict what level of success unions may have in organizing this workforce or the potentially negative impact of such labor organizing on our costs.

Unless we are able to take advantage of technological developments in the telecommunications industry on a timely basis, we may experience a decline in a demand for our services or may be unable to implement our business strategy.

Our industry is experiencing rapid change as new technologies are developed that offer consumers an array of choices for their communications needs. In order to grow and remain competitive, we will need to adapt to future changes in technology, to enhance our existing offerings and introduce new offerings to address our customers' changing demands. If we are unable to meet future advances in competing technologies on a timely basis or at an acceptable cost, we could lose customers to our competitors. In general, the development of new services in our industry requires us to anticipate and respond to the varied and continually changing demands of our customers. We may not be able to accurately predict technological trends or the success of new services in the market. In addition, there could be legal or regulatory restraints to our introduction of new services. If these services fail to gain acceptance in the marketplace, or if costs associated with implementation and completion of the introduction of these services materially increase, our ability to retain and attract customers could be adversely affected.

While we believe our primary wireless technology platform, CDMA, and its upgrades offer many advantages, many competing wireless service providers have chosen GSM or other technologies as the technology platforms for their wireless networks. There are risks that current or future versions of the wireless technologies and evolutionary path that we have selected may not be demanded by existing and prospective customers or provide the advantages that we expect. In addition, there are risks that other wireless carriers on whom our customers roam may change their technology to GSM or other technologies that are incompatible with ours. As a result, the ability of our and such other carriers' customers to roam on our respective wireless networks could be adversely affected. If these risks materialize, our ability to provide national wireless service to our customers, to retain and attract customers, and to maintain and grow our customer revenues could be materially adversely affected.

We depend on key suppliers and vendors to provide equipment that we need to operate our business.

We also depend upon various key suppliers and vendors to provide us with the equipment that we need to operate our business. If these suppliers or vendors fail to provide equipment or service to us on a timely basis, it could have an adverse impact on our ability to implement our business strategy and, in addition, we might be unable to satisfy the requirements contained in our FCC licenses regarding the construction of our wireless network. These suppliers and vendors may be subject to litigation with respect to technology that we depend on for our service offerings.

Changes in the regulatory framework under which we operate could adversely affect our business prospects or results of operations.

Our operations are subject to regulation by the FCC and other federal, state and local agencies. It is impossible to predict with any certainty the outcome of pending federal and state regulatory proceedings relating to our provision of retail or wholesale services, or the reviews by federal or state courts of regulatory rulings. Unless we are able to obtain relief, existing laws and regulations may inhibit our ability to expand our business and introduce new products and services. In addition, the adoption of new laws or regulations or changes to the existing regulatory framework could adversely affect our business plans. For example, the development of new technologies, such as Internet Protocol-based services, including VoIP and super high-speed broadband and video, could be subject to conflicting regulation between the FCC and various state and local authorities, which could significantly increase the cost of implementing and introducing new services based on this technology. In addition, the rapid growth of the wireless industry has led to an increase in efforts by some state legislatures and state public utility commissions to regulate the industry in ways that may impose additional costs on Verizon Wireless. Moreover, many states have also imposed significant taxes on providers in the wireless industry.

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We are subject to a significant amount of litigation, which could require us to pay significant damages or settlements.

Our business faces a substantial amount of litigation, including patent infringement lawsuits, antitrust class actions, personal injury claims and lawsuits relating to our advertising, sales, billing and collection practices. In addition, our wireless business also faces personal injury and consumer class action lawsuits relating to alleged health effects of wireless phones or radiofrequency transmitters, and class action lawsuits that challenge marketing practices and disclosures relating to alleged adverse health effects of handheld wireless phones. We may incur significant expenses in defending these lawsuits. In addition, we may be required to pay significant awards or settlements.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

General

Our principal properties do not lend themselves to simple description by character and location. Our total investment in plant, property and equipment was approximately \$204 billion at December 31, 2006 and \$188 billion at December 31, 2005, including the effect of retirements, but before deducting accumulated depreciation.

Our gross investment in plant, property and equipment consisted of the following at December 31:

	2006		2005	
Network equipment	80.1	%	81.2%	
Land, buildings and building equipment			9.9	9.1
Furniture and other equipment			6.3	6.5
Other	3.7		3.2	
	100.0	%	100.0%	

Our properties are divided among our operating segments at December 31, as follows:

	2006		2005	
Wireline	76.7	%	76.9%	
Wireless	22.7		22.4	
Corporate and Other			0.6	0.7
	100.0	%	100.0%	

Network equipment consists primarily of aerial cable, underground cable, conduit and wiring, wireless plant, telephone poles, switching equipment, transmission equipment and related facilities. Land, buildings and building equipment consists of land and land improvements and central office buildings. Furniture and other equipment consists of public telephone instruments and telephone equipment (including PBXs), furniture, office equipment, motor vehicles and other work equipment. Other property consists primarily of plant under construction, capital leases, capitalized computer software costs and leasehold improvements. A portion of our property is subject to the liens of their respective mortgages securing funded debt.

The customers of our telephone operations are served by electronic switching systems that provide a wide variety of services. At December 31, 2006, substantially all of the access lines were served by digital capability.

Capital Expenditures

We continue to make significant capital expenditures to meet the demand for telecommunications services and to further improve such services. Capital spending for Wireline was \$10,259 million in 2006, \$8,267 million in 2005 and \$7,118 million in 2004. Capital spending for Domestic Wireless was \$6,618 million in 2006, \$6,484 million in 2005 and \$5,633 million in 2004. In 2007, Verizon management expects capital expenditures to be in the range of \$17.5 billion to \$17.9 billion.

Item 3. Legal Proceedings

Verizon and a number of other telecommunications companies have been the subject of multiple class action suits concerning its alleged participation in intelligence-gathering activities allegedly carried out by the federal government, at the direction of the President of the United States, as part of the government's post-September 11

program to prevent terrorist attacks. Plaintiffs generally allege that Verizon has participated by permitting the government to gain access to the content of its subscribers' telephone calls and/or records concerning those calls and that such action violates federal and/or state constitutional and statutory law. Relief sought in the cases includes injunctive relief, attorneys' fees, and statutory and punitive damages. On August 9, 2006, the Judicial Panel on Multidistrict Litigation ("Panel") ordered that these actions be transferred, consolidated and coordinated in the U.S. District Court for the Northern District of California. The Panel subsequently ordered that a number of "tag along" actions also be transferred to the Northern District of California. Verizon has not answered or otherwise responded to any of the complaints. Verizon believes that these lawsuits are without merit.

In the Matter of Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets, an action brought before the United States International Trade Commission,

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Broadcom Corporation alleges that certain chips and chipsets manufactured by respondent Qualcomm Corporation infringe three Broadcom patents. Broadcom is currently seeking a ban on the importation of certain devices containing Qualcomm's EV-DO chipsets, but not with respect to data cards, PDAs, smartphones or handheld email devices containing those chips. Verizon Wireless was granted permission to intervene in the proceeding on the issue of remedy but not on the issue of liability. The ITC staff, which is a party to the proceeding, has supported Broadcom's position with respect to liability and remedy. The trial on remedy was completed on July 11, 2006 before an ITC administrative law judge. The Administrative Law Judge issued an initial determination, finding that Qualcomm has infringed one of the three Broadcom patents and recommended that Qualcomm's chipsets should be excluded from importation into the United States. However, the Administrative Law Judge further recommended that Verizon Wireless handsets that incorporate the Qualcomm EV-DO chipsets should not be subject to an exclusion order. Broadcom and the ITC staff requested review of the initial determination by the full ITC. On December 8, 2006, the ITC affirmed in substantial part the Administrative Law Judge's initial determination with respect to liability, determining that Qualcomm infringed one Broadcom patent. The ITC will hold a public hearing on the issues of remedy and the public interest on March 21, 2007. The decision of the full ITC with respect to remedy is expected to be made by May 8, 2007. During a 60-day period following any exclusion order by the ITC, the President of the United States may disapprove the order. Further, ITC exclusion orders are reviewable by the U.S. Court of Appeals for the Federal Circuit. Disruption of the supply of handsets incorporating Qualcomm EV-DO chipsets could have a material adverse effect on the availability of handsets to sell to Verizon Wireless customers and could therefore have a material adverse effect on its business.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

Executive Officers of the Registrant

Set forth below is information with respect to our executive officers.

Name	Age	Office	Held Since
Ivan G. Seidenberg	60	Chairman and Chief Executive Officer	2000
William P. Barr	56	Executive Vice President and General Counsel	2000

		9,641,600				9,641,600		
		49,933,600						

(1) On January 19, 2006, Verizon's Board of Directors authorized a common stock repurchase program.

(2) The program authorizes total repurchases of up to 100 million common shares terminating no later than the close of business on February 28, 2008. Under the plan, Verizon has the option to repurchase shares for the corporation over time, with the amount and timing of repurchases depending on market conditions and corporate needs.

Item 6. Selected Financial Data

Information required by this item is included in the 2006 Verizon Annual Report to Shareowners under the heading "Selected Financial Data" on page 17, which is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Results of Financial Condition and Results of Operations

Information required by this item is included in the 2006 Verizon Annual Report to Shareowners under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 18 through 39, which is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is included in the 2006 Verizon Annual Report to Shareowners under the heading "Market Risk" on page 32, which is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Information required by this item is included in the 2006 Verizon Annual Report to Shareowners on pages 40 through 79, which is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Our chief executive officer and chief financial officer have evaluated the effectiveness of the registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934), as of the end of the period covered by this annual report, that ensure that information relating to the registrant which is required to be disclosed in this report is recorded, processed, summarized and reported, within required time periods. Based on this evaluation, our chief executive officer and chief financial officer have concluded that the registrant's disclosure controls and procedures were effective as of December 31, 2006.

We completed the merger with MCI on January 6, 2006, at which time MCI became a subsidiary of Verizon. The Company has extended its Section 404 compliance program under the Sarbanes-Oxley Act of 2002 and the applicable rules and regulations under such Act to include the merged entity's internal controls over financial reporting.

There were no changes in the registrant's internal control over financial reporting during the fourth quarter of 2006 that have materially affected, or are reasonably likely to materially affect the registrant's internal control over financial reporting.

Management's report on internal control over financial reporting and the attestation report of Verizon's independent registered accounting firm is included in the 2006 Verizon Annual Report to Shareowners on pages 40 through 41 and is incorporated herein by reference.

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance of the Registrant

For information with respect to our executive officers, see "Executive Officers of the Registrant" at the end of Part I of this Report. For other information required by this item see the sections entitled "Election of Directors," "Structure and Practices of the Board" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for our 2007 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference.

Item 11. Executive Compensation

For information with respect to executive compensation, see the section entitled "Executive Compensation" in the Proxy Statement for our 2007 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

For information with respect to the security ownership of the Directors and Executive Officers and related stockholder matters, see the section entitled “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement for our 2007 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference. In addition, see the following table for other equity compensation plan information:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	185,110,937		\$
47.55	128,833,578		
Equity compensation plans not approved by security holders	45,337,060		
41.90	9,900,616*		
Total	230,447,997	46.44	
	138,734,194		

* Indicates the number of securities available for issuance under the Verizon Communications 2000 Broad-Based Incentive Plan, which provides for awards of nonqualified stock options, restricted stock, restricted stock units and other equity-based hypothetical stock units to employees of Verizon and its subsidiaries.

Item 13. Certain Relationships and Related Transactions, and Director Independence

For information with respect to certain relationships and related transactions, and director independence, see the “Structure and Practices of the Board” section of the Proxy Statement for our 2007 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

For information with respect to principal accounting fees and services, see the Proxy Statement for our 2007 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

Documents filed as part of this report:

	Page	
(1)	Report of Management on Internal Control Over Financial Reporting	*
(2)	Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	*
(3)	Report of Independent Registered Public Accounting Firm on Financial Statements	*
	Financial Statements covered by Report of Independent Registered Public Accounting Firm:	
	Consolidated Statements of Income	*
	Consolidated Balance Sheets	*
	Consolidated Statements of Cash Flows	*
	Consolidated Statements of Changes in Shareowners' Investment	*
	Notes to Consolidated Financial Statements	*
	* Incorporated herein by reference to the appropriate portions of the registrant's annual report to shareowners for the fiscal year ended December 31, 2006. (See Part II.)	
(4)	Financial Statement Schedule	
	II - Valuation and Qualifying Accounts	24
(5)	Exhibits	

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Exhibit Number	
3a	Restated Certificate of Incorporation of Verizon Communications Inc. (Verizon) (Exhibit 3a to Form 10-K for the year ended December 31, 2005).
3b	Bylaws of Verizon, as amended and restated (Exhibit 3b to Form 10-Q for the period ended September 30,

2006).

4	No instrument which defines the rights of holders of long-term debt of Verizon and its consolidated subsidiaries is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, Verizon hereby agrees to furnish a copy of any such instrument to the SEC upon request.
10a	Description of Verizon Deferred Compensation Plan for Non-Employee Directors (Exhibit 10a to Form 10-K for the year ended December 31, 2000).*
	10a(i) Description of Amendment to Plan (Exhibit 10a(i) to Form 10-K for the year ended December 31, 2004).
10b	Bell Atlantic Deferred Compensation Plan for Outside Directors, as amended and restated (Exhibit 10a to Form 10-K for the year ended December 31, 1998).*
10c	Deferred Compensation Plan for Non-Employee Members of the Board of Directors of GTE, as amended (Exhibit 10-1 to GTE's Form 10-K for the year ended December 31, 1997 and Exhibit 10.1 to GTE's Form 10-K for the year ended December 31, 1998, File No. 1-2755).*
10d	GTE's Directors' Deferred Stock Unit Plan (Exhibit 10-8 to GTE's Form 10-K for the year ended December 31, 1997, File No. 1-2755).*
10e	Description of Plan for Non-Employee Directors' Travel Accident Insurance (Exhibit 10c to Form 10-K for the year ended December 31, 1999).*
10f	Bell Atlantic Directors' Charitable Giving Program, as amended (Exhibit 10p to Form SE dated March 29, 1990 and Exhibit 10p to Form SE dated March 29, 1993).*
10g	GTE's Charitable Awards Program (Exhibit 10-10 to GTE's Form 10-K for the year ended December 31, 1992, File No. 1-2755).*
10h	NYNEX Directors' Charitable Award Program (Exhibit 10i to Form 10-K for the year ended December 31, 2000).*
10i	Verizon Communications 2000 Broad-Based Incentive Plan (Exhibit 10h to Form 10-Q for the period ended September 30, 2000).*
10j	Verizon Communications Inc. Long-Term Incentive Plan (Appendix B to Verizon's 2001 Proxy Statement filed March 12, 2001).*
	10j(i) Performance Stock Unit Agreement 2003-2005 Award Cycle (Exhibit 10j(i) to Form 10-K for the year ended December 31, 2005).*
	10j(ii) Performance Stock Unit Agreement 2004-2006 Award Cycle (Exhibit 10j(ii) to Form 10-K for the year ended December 31, 2005).*

	10j(iii) Restricted Stock Unit Agreement 2005-2007 Award Cycle (Exhibit 10a to Form 10-Q for the period ended March 31, 2005).*
	10j(iv) Performance Stock Unit Agreement 2005-2007 Award Cycle (Exhibit 10b to Form 10-Q for the period ended March 31, 2005).*
	10j(iv)(a) Addendum to Performance Stock Unit Agreement 2005-2007 Award Cycle (Exhibit 10j(iv)(a) to Form 10-K for the year ended December 31, 2005).*
	10j(v) Restricted Stock Unit Agreement 2006-2008 Award Cycle (Exhibit 10j(v) to Form 10-K for the year ended December 31, 2005).*
	10j(vi) Performance Stock Unit Agreement 2006-2008 Award Cycle (Exhibit 10j(vi) to Form 10-K for the year ended December 31, 2005).*
10k	GTE's Long-Term Incentive Plan, as amended (Exhibit B to GTE's 1997 Proxy Statement and Exhibit 10.5 to GTE's 1998 Form 10-K for the year ended December 31, 1998, File No. 1-2755); Description of Amendments (Exhibit 10l to Form 10-K for the year ended December 31, 2000).*
10m	NYNEX 1995 Stock Option Plan, as amended (Exhibit No. 1 to NYNEX's Proxy Statement dated March 20, 1995, File No. 1-8608); Description of Amendments (Exhibit 10n to Form 10-K for the year ended December 31, 2000).*

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10n	Verizon Communications Inc. Short-Term Incentive Plan (Appendix C to Verizon's 2001 Proxy Statement filed March 12, 2001).*
10o	Verizon Communications Inc. Income Deferral Plan (Exhibit 10f to Form 10-Q for the period ended June 30, 2002).*
	10o(i) Description of Amendment to Plan (Exhibit 10o(i) to Form 10-K for the year ended December 31, 2004).*
10p	Verizon Communications Inc. Excess Pension Plan (Exhibit 10p to Form 10-K for the year ended December 31, 2004).*
	10p(i) Description of Amendment to Plan (Exhibit 10p(i) to Form 10-K for the year ended December 31, 2004).*
10q	GTE's Executive Salary Deferral Plan, as amended (Exhibit 10.10 to GTE's Form 10-K for the year

ended December 31, 1998, File No. 1-2755).*

10r	Bell Atlantic Senior Management Long-Term Disability and Survivor Protection Plan, as amended (Exhibit 10h to Form SE filed on March 27, 1986 and Exhibit 10b(ii) to Form 10-K for the year ended December 31, 1997).*
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10s	Description of Bell Atlantic Senior Management Estate Management Plan (Exhibit 10rr to Form 10-K for year ended December 31, 1997).*
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10t	GTE's Executive Retired Life Insurance Plan, as amended (Exhibits 10-6, 10-6 and 10-6 to GTE's Form 10-K for the years ended December 31, 1991, 1992 and 1993, respectively, File No. 1-2755).*
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10u	NYNEX Supplemental Life Insurance Plan (Exhibit No. 10 iii 21 to NYNEX's Form 10-Q for the period ended June 30, 1996, File No. 1-8608).*
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10v	Summary Plan Description of Verizon Executive Deferral Plan (Exhibit 10(v) to Form 10-K for the year ended December 31, 2005).*
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10w	Description of salary increase for Ivan G. Seidenberg (Exhibit 10w to Form 10-K for the year ended December 31, 2004).*
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10x	Employment Agreement between Verizon and Lawrence T. Babbio (Exhibit 10a to Form 10-Q for the period ended September 30, 2000).*
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10y	Employment Agreement between Verizon and Marc C. Reed (Exhibit 10a to Form 10-Q for the period ended June 30, 2004).*
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10z	Employment Agreement between Verizon and William P. Barr (Exhibit 10z to Form 10-Q for the period ended March 31, 2003).*
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10cc	Employment Agreement between Verizon and Doreen A. Toben (Exhibit 10d to Form 10-Q for the period ended June 30, 2002).*
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10dd	Description of the Split-Dollar Insurance Arrangements (Exhibit 10g to Form 10-Q for the period ended June 30, 2002).*
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10dd(i)	Description of Changes to Arrangements (Exhibit 10dd(i) to Form 10-K for the year ended December 31, 2004).*
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10ee	Employment Agreement between Verizon and Dennis F. Strigl (Exhibit 10f to Form 10-Q for the period ended September 30, 2000).*
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10ff	Employment Agreement between Verizon and Thomas J. Tauke (Exhibit 10b to Form 10-Q for the period ended June 30, 2004).*
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10gg	Form of Employment Agreement between Verizon and Band 1 Senior Management Employee (Exhibit 10gg to the Form 10-K for the year ended December 31, 2004).*
10hh	NYNEX Deferred Compensation Plan for Non-Employee Directors (Exhibit 10gg to NYNEX's Registration Statement No. 2-87850, File No. 1-8608).*
10hh(i)	Amendment to NYNEX Corporation Deferred Compensation Plan for Non-Employee Directors (Exhibit 10iii 5a to NYNEX's Quarterly Report on Form 10-Q for the period ended June 30, 1996, File No. 1-8608).*
10ii	U.S. Wireless Agreement, dated September 21, 1999, among Bell Atlantic and Vodafone Airtouch plc, including the forms of Amended and Restated Partnership Agreement and the Investment Agreement (Exhibit 10 to Form 10-Q for the period ended September 30, 1999).
12	Computation of Ratio of Earnings to Fixed Charges filed herewith.
13	Portions of Verizon's Annual Report to Shareowners for the fiscal year ended December 31, 2006. Only the information incorporated by reference into this Form 10-K is included in the exhibit.
21	List of principal subsidiaries of Verizon filed herewith.

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23	Consent of Ernst & Young LLP filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Indicates management contract or compensatory plan or arrangement.

uncollectible charges on purchases of accounts receivable from others which were billed by us. Also includes amounts transferred from other accounts. The 2006 amounts charged to other accounts for the allowance for uncollectible accounts receivable and valuation allowance for deferred tax assets were primarily due to the acquisition of MCI.

(b) Amounts written off as uncollectible or transferred to other accounts or utilized.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Verizon Communications Inc.

Date:	March 1, 2007	By:	/s/ Thomas A. Bartlett
			Thomas A. Bartlett
			Senior Vice President and Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

--	--	--	--

Principal Executive Officer:

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/s/ Ivan G. Seidenberg	Chairman and Chief Executive Officer		
	March 1, 2007		

Ivan G. Seidenberg			
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Principal Financial Officer:

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/s/ Doreen A. Toben	Executive Vice President and Chief Financial Officer		
	March 1, 2007		

Doreen A. Toben			
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Principal Accounting Officer:		
/s/ Thomas A. Bartlett	Senior Vice President and Controller	
	March 1, 2007	
Thomas A. Bartlett		

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Signatures - Continued		
/s/ Ivan G. Seidenberg	Director	
	March 1, 2007	
Ivan G. Seidenberg		
/s/ James R. Barker	Director	
	March 1, 2007	
James R. Barker		
/s/ Richard L. Carrión	Director	
	March 1, 2007	
Richard L. Carrión		
/s/ M. Frances Keeth	Director	
	March 1, 2007	
M. Frances Keeth		

/s/ Robert W. Lane	Director		
	March 1, 2007		
Robert W. Lane			
/s/ Sandra O. Moose	Director		
	March 1, 2007		
Sandra O. Moose			
/s/ Joseph Neubauer	Director		
	March 1, 2007		
Joseph Neubauer			
/s/ Donald T. Nicolaisen	Director		
	March 1, 2007		
Donald T. Nicolaisen			
/s/ Thomas H. O'Brien	Director		
	March 1, 2007		
Thomas H. O'Brien			
/s/ Clarence Otis, Jr.	Director		
	March 1, 2007		
Clarence Otis, Jr.			
/s/ Hugh B. Price	Director		
	March 1, 2007		
Hugh B. Price			
/s/ Walter V. Shipley	Director		
	March 1, 2007		
Walter V. Shipley			

/s/ John W. Snow	Director		
	March 1, 2007		
John W. Snow			
/s/ John R. Stafford	Director		
	March 1, 2007		
John R. Stafford			
/s/ Robert D. Storey	Director		
	March 1, 2007		
Robert D. Storey			

EXHIBIT 12

**Computation of Ratio of Earnings to Fixed Charges
Verizon Communications Inc. and Subsidiaries**

	(dollars in millions)			
Years Ended December 31,	2006	2005	2004	
	2003	2002		
Income before provision for income taxes, discontinued operations, extraordinary items, and cumulative effect of accounting change	\$ 8,154	\$ 8,448	\$ 7,977	\$
2,681	\$ 3,797			
Minority interest	4,038	3,001	2,329	
	1,562	1,303		
Equity in (earnings) loss of unconsolidated businesses	(773)	(686)	(1,690)	
	(1,273)	1,548		
Dividends from unconsolidated businesses	42	2,336	162	
	198	96		
Interest expense	2,349	2,129	2,336	
	2,741	3,072		
Portion of rent expense representing interest	530	511	449	

	432	391		
Amortization of capitalized interest	112	108	104	
	103	87		
Income, as adjusted	\$ 14,452	\$ 15,847	\$ 11,667	\$
6,444	\$ 10,294			
Fixed charges:				
Interest expense	\$ 2,349	\$ 2,129	\$ 2,336	\$
2,741	\$ 3,072			
Portion of rent expense representing interest	530	511	449	
	432	391		
Capitalized interest	462	352	177	
	144	185		
Preferred stock dividend requirement	2	9	8	12
	18			
Fixed Charges	\$ 3,343	\$ 3,001	\$ 2,970	\$
3,329	\$ 3,666			
Ratio of Earnings to Fixed Charges	4.32	5.28	3.93	
	1.94	2.81		

EXHIBIT 13

Selected Financial Data Verizon Communications Inc. and Subsidiaries				
	(dollars in millions, except per share amounts)			
	2006	2005	2004	2003
	2002			
Results of Operations				
Operating revenues	\$ 88,144	\$ 69,518	\$ 65,751	\$
61,754	\$ 60,907			
Operating income	13,373	12,581	10,870	5,312
	12,386			
Income before discontinued operations and cumulative effect of accounting change	5,899	2,168	3,016	5,480
				6,027
Per common share - basic	1.88	2.18	2.13	.79
	1.11			

Per common share - diluted	1.88	2.16	2.11	.79		
	1.11					
Net income	6,197	7,397	7,831	3,077		
	4,079					
Net income available to common shareowners	6,197	7,397	7,831	3,077		
	4,079					
Per common share - basic	2.13	2.67	2.83	1.12		
	1.49					
Per common share - diluted	2.12	2.65	2.79	1.12		
	1.49					
Cash dividends declared per common share	1.62	1.62	1.54	1.54		
	1.54					

Financial Position

Total assets	\$ 188,804	\$ 168,130	\$ 165,958	\$		
165,968	\$ 167,468					
Long-term debt	28,646	31,569	34,970			
	38,609	43,066				
Employee benefit obligations	30,779	17,693	16,796			
	15,726	14,484				
Minority interest	28,337	26,433	24,709			
	24,023	23,749				
Shareowners' investment	48,535	39,680	37,560			
	33,466	32,616				

• Significant events affecting our historical earnings trends in 2004 through 2006 are described in Management's Discussion and Analysis of Results of Operations and Financial Condition.

• 2003 data includes severance, pension and benefit charges and other special and/or non-recurring items.

• 2002 data includes gains on investments and sales of businesses and other special and/or non-recurring items.

Stock Performance Graph

COMPARISON OF FIVE-YEAR TOTAL RETURN AMONG VERIZON,
S&P 500 TELECOM SERVICES INDEX AND S&P 500 STOCK INDEX

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	At December 31,				
Data Points in Dollars*	2001	2002	2003	2004	2005
Verizon	100.0	84.9	80.3	96.5	75.2
	101.1				
S&P 500	100.0	77.9	100.2	111.1	116.6
	135.0				
S&P 500 Telecom Services	100.0	65.9	70.7		84.7
	80.2	109.5			
* Assumes \$100 invested on December 31, 2001					

The graph compares the cumulative total returns of Verizon, the S&P 500 Telecommunications Services Index, and the S&P 500 Stock Index over a five-year period. It assumes \$100 was invested on December 31, 2001, with dividends reinvested.

Management's Discussion and Analysis of Results of Operations and Financial Condition

Overview

Verizon Communications Inc. (Verizon) is one of the world's leading providers of communications services. Verizon's wireline business, which includes the operations of the former MCI, provides telephone services, including voice, broadband data and video services, network access, nationwide long-distance and other communications products and services, and also owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks. Verizon's domestic wireless business, operating as Verizon Wireless, provides wireless voice and data products and services across the United States using one of the most extensive and reliable wireless networks. Stressing diversity and commitment to the communities in which we operate, Verizon has a highly diverse workforce of approximately 242,000 employees.

The sections that follow provide information about the important aspects of our operations and investments, both at the consolidated and segment levels, and include discussions of our results of operations, financial position and sources and uses of cash. In addition, we have highlighted key trends and uncertainties to the extent practicable. The content and organization of the financial and non-financial data presented in these sections are consistent with information used by our chief operating decision makers for, among other purposes, evaluating performance and allocating resources. We also monitor several key economic indicators as well as the state of the economy in general, primarily in the United States where the majority of our operations are located, in evaluating our operating results and analyzing and understanding business trends. While most key economic indicators, including gross domestic product, impact our operations to some degree, we have noted higher correlations to housing starts, non-farm employment, personal consumption expenditures and capital spending, as well as more general economic indicators such as inflation and unemployment rates.

Our results of operations, financial position and sources and uses of cash in the current and future periods reflect Verizon management's focus on the following four key areas:

- Revenue Growth - Our emphasis is on revenue growth, devoting more resources to higher growth markets such as wireless, including wireless data, wireline broadband connections, including fiber optics to the premises (Verizon's FiOS data and TV services), digital subscriber lines (DSL) and other data services, long distance, as well as expanded strategic services to business markets, rather than to the traditional wireline voice market, where

we have been experiencing access line losses. Verizon reported consolidated revenue growth of 26.8% in 2006 compared to 2005, primarily driven by the merger with MCI and 17.8% higher revenue at Domestic Wireless. Verizon added 7,715,000 wireless customers and 1,838,000 broadband connections in 2006.

• **Operational Efficiency** - While focusing resources on growth, we are continually challenging our management team to lower expenses, particularly through technology-assisted productivity improvements including self-service initiatives. The effect of these and other efforts, such as real estate consolidations, call center routing improvements and the formation of Verizon Services Organization, has been to change the company's cost structure and maintain stable operating income margins. Real estate consolidations include the establishment of the Verizon Center. The Verizon Services Organization provides centralized services across our business, including procurement, finance operations and real estate services. With our deployment of the FiOS network, we expect to realize savings in annual, ongoing operating expenses as a result of efficiencies gained from fiber network facilities. As the deployment of the FiOS network gains scale and installation automation improvements occur, costs per home connected are expected to decline. Since the merger with MCI, we have gained operational benefits from sales force and product and systems integration initiatives. While workforce levels in 2006 increased to 242,000 from 206,000 primarily as a result of the acquisition of MCI, productivity improvements and merger synergy savings led to headcount reductions of about 9,200 in our wireline business.

• **Capital Allocation** - Our capital spending continues to be directed toward growth markets. High-speed wireless data (Evolution-Data Optimized, or EV-DO) services, replacement of copper access lines with fiber optics to the premises, as well as expanded services to business markets are examples of areas of capital spending in support of these growth markets. Excluding discontinued operations, in 2006, capital expenditures were \$17,101 million compared to 2005 capital expenditures of \$14,964 million. Of the increase, \$1,602 million was primarily attributable to capital spending related to the former MCI, with the remainder in support of growth initiatives. In 2007, Verizon management expects capital expenditures to be in the range of \$17.5 billion to \$17.9 billion. In addition to capital expenditures, Verizon Wireless continues to participate in the Federal Communications Commission's (FCC) wireless spectrum auctions and continues to evaluate spectrum acquisitions in support of expanding data applications and its growing customer base. In 2006, this included participation in the FCC Auction 66 of Advanced Wireless Services spectrum (AWS auction) in which Verizon Wireless was the high bidder on thirteen 20 MHz licenses covering a population of nearly 200 million.

• **Cash Flow Generation and Shareowner Value Creation** - The financial statements reflect the emphasis of management on not only directing resources to growth markets, but also creating value for shareowners through the use of cash provided by our operating and investing activities for the repayment of debt, share repurchases and providing a stable dividend to our shareowners, in addition to returning value to shareowners through spin-off and other strategic transactions. Verizon's total debt decreased to \$36,361 million as of December 31, 2006 from \$38,257 million as of December 31, 2005, primarily as a result of the debt reduction resulting from the spin-off of Idearc Inc. (Idearc), formerly our U.S. print and Internet yellow pages directories business, and the use of cash acquired in the MCI merger and generated through strategic asset sales (see "Other Factors That May Affect Future Results - Recent Developments"), partially offset by debt acquired in connection with the MCI merger. Strategic asset sales included the sale of Verizon Dominicana C. por A. (Verizon Dominicana), which closed on December 1, 2006. Verizon's ratio of debt to debt combined with shareowners' equity was 42.8% as of December 31, 2006 compared with 49.1% as of December 31, 2005. Management has recommended to the Board of Directors that our dividend be maintained at a level no less than that immediately preceding the Idearc spin-off. In addition, we repurchased \$1,700 million of our common stock as part of our previously announced program during 2006, and we plan to continue our share buyback program at

similar levels in 2007. Additionally, Verizon's balance of cash and cash equivalents at December 31, 2006 of \$3,219 million increased by \$2,459 million from \$760 million at December 31, 2005.

Supporting these key focus areas are continuing initiatives to enhance the value of our products and services

through well-managed deployment of proven advanced technology and through competitive products and services packaging. At Wireline, as of December 31, 2006, we met our goal of passing six million premises with our high-capacity fiber network (FiOS), doubling the number of premises passed compared to year-end 2005. We added 517,000 new FiOS data connections in 2006. In 2005, Verizon began offering video on the FiOS network in three markets. By the end of 2006, Verizon had obtained over 600 video franchises covering 7.3 million households with service available for sale to 2.4 million premises. We had 207,000 FiOS TV customers by the end of 2006. We are also developing and marketing innovative product bundles to include local wireline, long distance, wireless and broadband services for consumer and general business retail customers. These efforts will also help counter the effects of competition and technology substitution that have resulted in access line losses, and will enable us to grow revenues by becoming a leading video provider.

Also at Wireline, we will continue to focus investments in strategic areas by rolling-out next generation global IP networks to meet the ongoing global enterprise market shift to IP-based products and services. Deployment of new strategic service offerings, including expansion of our voice over IP (VoIP) and international Ethernet capabilities, introduction of cutting edge video and web-based conferencing capabilities and enhancements to our virtual private network portfolio, will allow us to continue to gain share in the enterprise market. Additionally, we will continue to integrate the business of the former MCI to drive continued growth in synergy, supporting a focus on operational efficiency and continued creation of shareowner value.

At Verizon Wireless, we will continue to execute on the fundamentals of our network superiority and value proposition to deliver growth for the business and provide new and innovative products and services for our customers such as Broadband Access, our EV-DO service. To accomplish our goal of being the acknowledged market leader in providing wireless voice and data communication services in the U.S, we will continue to implement the following key elements of our business strategy: provide the highest network reliability through our code division multiple access (CDMA) 1XRTT technology and EV-DO (Revision A) infrastructure, which significantly increases data transmission rates; profitably acquire, satisfy and retain our customers; and increase the value of our service offerings to customers while achieving revenue and net income growth. We also continue to expand our wireless data, messaging and multi-media offerings for both consumer and business customers and take advantage of the growing demand for wireless data services and focus on operating margins and capital efficiency by driving down costs and leveraging our scale.

In January 2007, Verizon announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) that will result in Verizon establishing a separate entity for its local exchange access lines and related business assets in Maine, New Hampshire and Vermont, spinning off that new entity to Verizon's shareowners, and immediately merging it with and into FairPoint. The total value to be received by Verizon and its shareowners in exchange for these operations will be approximately \$2,715 million.

Consolidated Results of Operations

In this section, we discuss our overall results of operations and highlight special and non-recurring items. As a result of the spin-off of our U.S. print and Internet yellow pages directories business, which was included in the Information Services segment, as well as reaching definitive agreements to sell our interests in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) and Verizon Dominicana, each of which was included in the International segment, the operations of our former U.S. print and Internet yellow pages directories business, Verizon Dominicana and TELPRI are reported as discontinued operations and assets held for sale. Accordingly, we now have two reportable segments - Wireline and Domestic Wireless. Prior period amounts and discussions are revised to reflect this change. We include in our results of operations the results of the former MCI business subsequent to the close of the merger on January 6, 2006.

This section on consolidated results of operations carries forward the segment results, which exclude the special and non-recurring items, and highlights and describes those items separately to ensure consistency of presentation in this section and the "Segment Results of Operations" section. In the following section, we review the performance of our two reportable segments. We exclude the effects of the special and non-recurring items from

the segments' results of operations since management does not consider them in assessing segment performance, due primarily to their non-recurring and/or non-operational nature. We believe that this presentation will assist readers in better understanding our results of operations and trends from period to period.

Consolidated Revenues									
(dollars in millions)									
Years Ended December 31,	2006	2005	% Change		2005				
	2004	% Change							
Wireline									
Verizon Telecom	\$ 33,259	\$ 32,114			\$ 32,114				
	\$ 32,261								
Verizon Business	20,490	7,394			7,394				
	7,414								
Intrasegment eliminations	(2,955)	(1,892)			(1,892)				
	(1,654)								
	50,794	37,616	35.0	%					
	37,616	38,021	(1.1)%					
Domestic Wireless	38,043	32,301	17.8		32,301				
	27,662	16.8							
Corporate & Other	(693)	(579)	19.7		(579)				
	(461)	25.6							
Revenues of Hawaii operations sold	-	180	(100.0	)	180				
	529	(66.0)						
Consolidated Revenues	\$ 88,144	\$ 69,518	26.8		\$ 69,518				
	\$ 65,751	5.7							

2006 Compared to 2005

Consolidated revenues in 2006 were higher by \$18,626 million, or 26.8% compared to 2005 revenues. This increase was primarily the result of significantly higher revenues at Wireline and Domestic Wireless.

Wireline's revenues in 2006 increased by \$13,178 million, or 35.0% compared to 2005 due to the acquisition of MCI and growth from broadband and long distance services. We added 1.8 million new broadband connections, for a total of 7.0 million lines in service at December 31, 2006, an increase of 35.7% compared to 5.1 million lines in service at December 31, 2005. The number of Freedom service plans continue to stimulate growth in long distance services, as the number of packages reached 7.9 million as of December 31, 2006, representing a 44.1% increase from December 31, 2005. These increases were partially offset by declines in wholesale revenues at Verizon Telecom due to subscriber losses resulting from technology substitution, including wireless and VoIP. Wholesale revenues at Verizon Telecom declined by \$752 million, or 8.3% in 2006 compared to similar periods in 2005 primarily due to the exclusion of affiliated access revenues billed to the former MCI mass market entities in 2006. Revenues at Verizon Business increased primarily due to the acquisition of MCI.

Domestic Wireless's revenues increased by \$5,742 million, or 17.8% compared to 2005 due to increases in service

revenues, including data revenues, and equipment and other revenues. Data revenues increased by \$2,232 million or 99.5% compared to 2005. Domestic Wireless ended 2006 with 59.1 million customers, an increase of 15.0% over 2005. Domestic Wireless's retail customer base as of December 31, 2006 was approximately 56.8 million, a 15.9% increase over December 31, 2005, and comprised approximately 96.1% of our total customer base. Average service revenue per customer (ARPU) increased by 0.6% to \$49.80 in 2006 compared to 2005, primarily attributable to increases in data revenue per customer driven by increased use of our messaging and other data services. Retail ARPU increased by 0.7% to \$50.44 for 2006 compared to 2005. Increases in wireless devices sold and revenue per unit sold drove increases in equipment and other revenue in 2006 compared to 2005.

Lower revenue of Hawaii operations sold of \$180 million, or 100% in 2006 compared to 2005 was the result of their sale during the second quarter of 2005.

2005 Compared to 2004

Consolidated revenues in 2005 were higher by \$3,767 million, or 5.7% compared to 2004 revenues. This increase was primarily the result of significantly higher revenues at Domestic Wireless, partially offset by lower revenues at Wireline and the sale of our Hawaii wireline operations in the second quarter of 2005.

Wireline's revenues in 2005 were lower than 2004 by \$405 million, or 1.1% primarily due to lower revenues from local services, partially offset by higher network access and long distance services revenues. We added 1.7 million new broadband connections, for a total of 5.1 million lines in service at December 31, 2005, an increase of 47.6% compared to 3.5 million lines in service at December 31, 2004. The introduction of our Freedom service plans stimulated growth in long distance services. As of December 31, 2005, approximately 53% of our local wireline customers chose Verizon as their long distance carrier. These increases were offset by declines in wholesale revenues at Verizon Telecom due to subscriber losses resulting from technology substitution, including wireless and VoIP.

Domestic Wireless's revenues increased by \$4,639 million, or 16.8% in 2005 compared to 2004 due to increases in service revenues, including data revenues, and equipment and other revenues. Data revenues increased by \$1,127 million or 101.0% compared to 2004. Domestic Wireless ended 2005 with 51.3 million customers, an increase of 17.2% over 2004. Domestic Wireless's retail customer base as of December 31, 2005 was approximately 49.0 million, a 17.2% increase over December 31, 2004, and comprised approximately 95.5% of our total customer base. ARPU decreased 1.5% to \$49.49 in 2005 compared to 2004, primarily due to pricing changes in early 2005, partially offset by a 71.7% increase in data revenue per customer in 2005 compared to 2004, driven by increased use of our messaging and other data services. Increases in wireless devices sold and revenue per unit sold drove increases in equipment and other revenue in 2005 compared to 2004.

Lower revenue of Hawaii operations sold of \$349 million, or 66.0% in 2005 compared to 2004 was the result of the sale during the second quarter of 2005 of our wireline and directory operations in Hawaii.

Consolidated Operating Expenses									
(dollars in millions)									
Years Ended December 31,	2006	2005	% Change	2005					
	2004	% Change							
Cost of services and sales	\$ 34,994	\$ 24,200	44.6	%	\$				
24,200		\$ 22,032	9.8	%					
Selling, general and administrative expense	25,232	19,652	28.4		19,652				

	19,346	1.6							
Depreciation and amortization expense	14,545	13,615	6.8		13,615				
	13,503	0.8							
Sales of businesses, net	-	(530)	(100.0)		(530)				
	-	nm							
Consolidated Operating Expenses	\$ 74,771	\$ 56,937	31.3		\$ 56,937				
	\$ 54,881	3.7							

nm - Not meaningful

2006 Compared to 2005

Cost of Services and Sales

Cost of services and sales increased by \$10,794 million, or 44.6% in 2006 compared to 2005. This increase was driven by the inclusion of the former MCI operations, higher wireless network costs, increases in wireless equipment costs and increases in pension and other postretirement benefit costs, partially offset by the net impact of productivity improvement initiatives.

The higher wireless network costs were caused by increased network usage relating to both voice and data services in 2006 compared to 2005, partially offset by decreased roaming, local interconnection and long distance rates. Cost of wireless equipment sales increased in 2006 compared to 2005 primarily as a result of an increase in wireless devices sold due to an increase in gross activations and equipment upgrades, together with an increase in cost per unit.

Costs in these periods were also impacted by increased pension and other postretirement benefit costs. The overall impact of the 2006 assumptions, combined with the impact of lower than expected actual asset returns over the past several years, resulted in pension and other postretirement benefit expense of approximately \$1,377 million in 2006 compared to net pension and postretirement benefit expense of \$1,231 million in 2005. Special and non-recurring items recorded during 2006 included \$25 million of merger integration costs.

Selling, General and Administrative Expense

Selling, general and administrative expense includes salaries and wages and benefits not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space.

Selling, general and administrative expense increased by \$5,580 million, or 28.4% in 2006 compared to 2005. This increase was driven by the inclusion of the former MCI operations, increases in the Domestic Wireless segment primarily related to increased salary and benefits expenses, and special and non-recurring charges. Special and non-recurring items in selling, general and administrative expenses in 2006 were \$816 million compared to special and non-recurring items in 2005 of \$311 million.

Special and non-recurring items in 2006 included \$56 million related to pension settlement losses incurred in connection with our benefit plans, a net pretax charge of \$369 million for employee severance and severance-related activities in connection with the involuntary separation of approximately 4,100 employees, who were separated in 2006. Special and non-recurring charges in 2006 also included \$207 million of merger integration costs, primarily for advertising and other costs related to re-branding initiatives and systems integration activities, and a net pretax charge of \$184 million for Verizon Center relocation costs. Special and non-recurring items in 2005 included a pretax impairment charge of \$125 million pertaining to our leasing operations for aircraft leased to airlines experiencing financial difficulties, a net pretax charge of \$98 million related to the restructuring of the Verizon management retirement benefit plans and a pretax charge of \$59 million associated with employee

severance costs and severance-related activities in connection with the voluntary separation program for surplus union-represented employees.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by \$930 million, or 6.8% in 2006 compared to 2005. This increase was primarily due to higher depreciable and amortizable asset bases as a result of the MCI merger and, to a lesser extent, increased capital expenditures.

2005 Compared to 2004

Cost of Services and Sales

Cost of services and sales increased by \$2,168 million, or 9.8% in 2005 compared to 2004. This increase was principally due to increases in pension and other postretirement benefit costs, higher direct wireless network costs, increases in wireless equipment costs and higher costs associated with our wireline growth businesses.

The overall impact of pension and other postretirement benefit plan assumption changes, combined with lower asset returns over the last several years, increased net pension and postretirement benefit expenses by \$407 million in 2005 (primarily in cost of services and sales) compared to 2004. Higher direct wireless network charges resulted from increased network usage in 2005 compared to 2004, partially offset by lower roaming, local interconnection and long distance rates. Cost of equipment sales was higher in 2005 due primarily to an increase in wireless devices sold together with an increase in cost per unit sold, driven by growth in customer additions and an increase in equipment upgrades in 2005. Higher costs associated with our wireline growth businesses, long distance and broadband connections, included a 2,400, or 1.7% increase in the number of Wireline employees as of December 31, 2005 compared to December 31, 2004. Costs in 2004 were impacted by lower interconnection expense charged by competitive local exchange carriers (CLECs) and settlements with carriers, including the MCI settlement recorded in 2004.

Selling, General and Administrative Expense

Selling, general and administrative expense increased by \$306 million, or 1.6% in 2005 compared to 2004. This increase was driven by increases in salary, pension and benefits costs, including an increase in the customer care and sales channel work force and sales commissions, partially offset by gains on real estate sales in 2005 and lower bad debt costs. Special and non-recurring items in selling, general and administrative expenses in 2005 were \$311 million compared to special and non-recurring items in 2004 of \$971 million.

Special and non-recurring items in 2005 included a pretax impairment charge of \$125 million pertaining to our leasing operations for aircraft leased to airlines experiencing financial difficulties, a net pretax charge of \$98 million related to the restructuring of the Verizon management retirement benefit plans and a pretax charge of \$59 million associated with employee severance costs and severance-related activities in connection with the voluntary separation program to surplus union-represented employees. Special and non-recurring items recorded in 2004 included \$805 million related to pension settlement losses incurred in connection with the voluntary separation of approximately 21,000 employees in the fourth quarter of 2003 who received lump-sum distributions during 2004. Special charges in 2004 also include an expense credit of \$204 million resulting from the favorable resolution of pre-bankruptcy amounts due from MCI, partially offset by a charge of \$113 million related to operating asset losses.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by \$112 million, or 0.8% in 2005 compared to 2004. This increase was primarily due to the increase in depreciable assets and software, partially offset by lower rates of depreciation on telephone plant.

millions)

Years Ended December 31,	2006	2005	2004
Interest income	\$ 201	\$ 103	\$ 97
Foreign exchange gains (losses), net	(3)	11	(7)
Other, net	197	197	(8)
Total	\$ 395	\$ 311	\$ 82

Other Income and (Expense), Net in 2006 increased \$84 million, or 27% compared to 2005. The increase was primarily due to increased interest income as a result of higher average cash balances coupled with higher interest rates in 2006 compared to 2005, partially offset by foreign exchange losses. Other, net in 2006 includes pretax gains on sales of investments, as well as leased asset gains.

Other, net in 2005 includes a pretax gain on the sale of a small international business and investment gains. Other Income and (Expense), Net in 2005 and 2004 include expenses of \$14 million and \$55 million, respectively, related to the early retirement of debt.

Interest Expense

Years Ended December 31,	2006	2005
Interest expense	\$ 2,349	\$ 2,336
Capitalized interest costs	462	352
Total interest costs on debt balances	\$ 2,811	\$ 2,513
Weighted average debt outstanding	\$ 41,500	\$ 41,781
Effective interest rate	6.8%	6.3%
		6.0%

impacted by the reversal of a valuation allowance relating to investments, tax benefits related to deferred tax balance adjustments and expense credits that are not taxable.

A reconciliation of the statutory federal income tax rate to the effective rate for each period is included in Note 16 to the consolidated financial statements.

Discontinued Operations

Discontinued operations represents the results of operations of TELPRI for all years presented in the consolidated statements of income and Verizon Dominicana, Verizon Information Services and Verizon Information Services Canada Inc. prior to their sale or spin-off in December 2006, November 2006 and the fourth quarter of 2004, respectively.

In the second quarter of 2006, we announced our decision to sell Verizon Dominicana and TELPRI and, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS No. 144) we have classified the results of operations of Verizon Dominicana and TELPRI as discontinued operations. The sale of Dominicana closed in December 2006 and, primarily due to taxes on previously unremitted earnings, a pretax gain of \$30 million resulted in an after-tax loss of \$541 million (or \$.18 per diluted share).

We completed the spin-off of Idearc to our shareholders on November 17, 2006, which resulted in an \$8,695 million increase to contributed capital in shareowners' investment.

Discontinued operations also include the results of operations of Verizon Information Services Canada Inc. prior to its sale in the fourth quarter of 2004. The sale resulted in a pretax gain of \$1,017 million (\$516 million after-tax, or \$.18 per diluted share).

Income from discontinued operations, net of tax decreased by \$611 million, or 44.6% in 2006 compared to 2005. This decrease was primarily due to the after-tax loss recorded in 2006 on the sale of Verizon Dominicana, partially offset by cessation of depreciation on fixed assets held for sale. Income from discontinued operations, net of tax decreased by \$562 million, or 29.1% in 2005 compared to 2004. The decrease was primarily driven by the after-tax gain recorded on the sale of Verizon Information Services Canada Inc. in 2004.

Cumulative Effect of Accounting Change

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *Share-Based Payment*, (SFAS No. 123(R)) which revises SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense based on their fair value. Effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123, using the prospective method (as permitted under SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* (SFAS No. 148)) for all new awards granted, modified or

settled after January 1, 2003. Under the prospective method, employee compensation expense in the first year is recognized for new awards granted, modified, or settled. The options generally vest over a term of three years, therefore, the expenses related to stock-based employee compensation included in the determination of net income for 2006, 2005 and 2004 are less than what would have been recorded if the fair value method had been applied to previously issued awards.

Effective January 1, 2006, we adopted SFAS No. 123(R) utilizing the modified prospective method. SFAS No. 123(R) requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. Under the modified prospective method, the provisions of SFAS No. 123(R) apply to all awards granted or modified after the date of adoption. SFAS No. 123(R) is supplemented by Staff Accounting Bulletin

(SAB) No. 107, "Share-Based Payments" (SAB No. 107). This SAB, which was issued by the Securities and Exchange Commission (SEC) in March 2005, expresses the views of the SEC staff regarding the relationship between SFAS No. 123(R) and certain SEC rules and regulations. In particular, this SAB provides guidance related to valuation methods, the classification of compensation expense, non-GAAP financial measures, the accounting for income tax effects of share-based payment arrangements, disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS No. 123(R), and interpretations of other share-based payment arrangements. We also adopted SAB No. 107 on January 1, 2006.

We recorded a \$42 million cumulative effect of accounting change as of January 1, 2006, net of taxes and after minority interest, to recognize the effect of initially measuring the outstanding liability awards (VARs) of the Verizon Wireless joint venture at fair value utilizing a Black-Scholes model. We do not expect SFAS No. 123(R) to have a material effect on our consolidated financial statements in future periods.

Segment Results of Operations

On November 17, 2006, we completed the spin-off to our shareowners of our U.S. print and Internet yellow pages directories, which was included in the Information Services segment. The spin-off resulted in a new company, named Idearc Inc. In addition, on April 2, 2006, we reached definitive agreements to sell our interests in TELPRI and Verizon Dominicana, each of which was included in the International segment. In accordance with SFAS No. 144, we have classified the results of operations for our U.S. print and Internet yellow pages directories business, Verizon Dominicana and TELPRI as discontinued operations and assets held for sale. Accordingly, we now have two reportable segments and prior period amounts and discussions are revised to reflect this change. Our segments are Wireline and Domestic Wireless. You can find additional information about our segments in Note 17 to the consolidated financial statements.

We measure and evaluate our reportable segments based on segment income. Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses such as our investments in unconsolidated businesses, primarily Omnitel and CANTV, lease financing, and asset impairments and expenses that are not allocated in assessing segment performance due to their non-recurring nature. These adjustments include transactions that the chief operating decision makers exclude in assessing business unit performance due primarily to their non-recurring and/or non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results, since these items are included in the chief operating decision makers' assessment of unit performance.

Wireline

The Wireline segment, which includes the operations of the former MCI, consists of the operations of Verizon Telecom, a provider of telephone services, including voice, broadband video and data, network access, long distance, and other services to consumer and small business customers and carriers, and Verizon Business, a provider of next-generation IP network services globally to medium and large businesses and government customers. As discussed earlier under "Consolidated Results of Operations," in the second quarter of 2005, we sold wireline properties in Hawaii representing approximately 700,000 access lines or 1% of the total Verizon Telecom switched access lines in service. For comparability purposes, the results of operations shown in the tables below exclude the Hawaii properties that have been sold.

Operating Revenues

									(dollars in millions)

Years Ended December 31,	2006	2005	2004
Verizon Telecom			
Mass Markets	\$ 22,528	\$	
20,446		\$	
20,447			
Wholesale	8,323		
	9,075		
	9,128		
Other	2,408		
	2,593		
	2,686		
Verizon Business			
Enterprise Business	13,999		
	6,018		
	6,196		
Wholesale	3,381		
	1,376		
	1,218		
International and Other	3,110	-	
		-	
Intrasegment Eliminations	(2,955))	
	(1,892))	
	(1,654))	
Total Wireline Operating Revenues	\$ 50,794	\$	
37,616		\$	
38,021			

In connection with the completion of the MCI merger, our product lines were realigned to be reflective of the Line of Business structure in which the product lines are currently being managed. Prior period amounts and discussions were reclassified to conform to the current presentation.

Verizon Telecom

Mass Markets

Verizon Telecom's Mass Markets revenue includes local exchange (basic service and end-user access), value-added services, long distance, broadband services for residential and certain small business accounts and FiOS TV services. Value-added services are a family of services that expand the utilization of the network, including products such as Caller ID, Call Waiting, Home Voicemail and Return Call. Long distance includes both regional toll services and long distance services. Broadband services include DSL and FiOS.

Our Mass Market revenues increased by \$2,082 million, or 10.2% in 2006, and decreased by \$1 million, or 0.0%

in 2005. The increase in 2006 was principally due to the inclusion of revenues from the former MCI and, in 2006 and 2005, growth from broadband and long distance. In both years revenue increases were offset by lower demand and usage of our basic local exchange and accompanying services attributable to subscriber losses due to technology substitution, including wireless and VoIP.

We added 1,838,000 new broadband connections, including 517,000 for FiOS in 2006, for a total of 6,982,000 lines at December 31, 2006, an increase of 35.7% compared to 5,144,000 lines in service at December 31, 2005. We have achieved a FiOS data penetration rate of 14% across all markets where we have been selling this service. Our Freedom service plans continue to stimulate growth in long distance services, as the number of plans reached 7.9 million as of December 31, 2006, representing a 44.1% increase from December 31, 2005. As of December 31, 2006, approximately 58% of our legacy Verizon wireline customers have chosen Verizon as their long distance carrier.

Declines in switched access lines in service of 7.6% in 2006 and 6.7% in 2005 were mainly driven by the effects of competition and technology substitution. Demand for legacy Verizon residential access lines declined 7.1% in 2006 and 6.3% in 2005, as customers substituted wireless, broadband and cable services for traditional landline services. At the same time, legacy Verizon business access lines declined 3.2% in 2006, and 4.2% in 2005, primarily reflecting competition and a shift to high-speed, high-volume special access lines.

We continue to seek opportunities to retain and win back customers. Our Freedom service plans offer local services with various combinations of long distance and Internet access services in a discounted bundle available on one bill. We have introduced our Freedom service plans in nearly all of our key markets.

Wholesale

Wholesale revenues are earned from long distance and other competing carriers who use our local exchange facilities to provide usage services to their customers. Switched access revenues are derived from fixed and usage-based charges paid by carriers for access to our local network. Special access revenues originate from carriers that buy dedicated local exchange capacity to support their private networks. Wholesale services also include local wholesale revenues from unbundled network elements (UNEs), interconnection revenues from CLECs and wireless carriers, and some data transport revenues.

Wholesale revenues decreased by \$752 million, or 8.3% in 2006 and by \$53 million, or 0.6% in 2005, due to the exclusion, in 2006, of affiliated access revenues billed to the former MCI mass market entities, and, in 2006 and 2005, to declines in legacy Verizon switched access revenues and local wholesale revenues, offset by increases in special access revenues.

Switched minutes of use declined in 2006 and 2005, reflecting the impact of access line loss and technology substitution. Wholesale lines decreased by 17.1% in 2006 due to the impact of a decision by a major competitor to deemphasize their local market initiatives in 2005. Special access revenue growth reflects continuing demand in the business market for high-capacity, high-speed digital services, partially offset by lessening demand for older, low-speed data products and services. As of December 31, 2006, customer demand for high capacity and digital data services increased 8.9% compared to 2005.

The FCC regulates the rates that we charge customers for interstate access services. See "Other Factors That May Affect Future Results - Regulatory and Competitive Trends - FCC Regulation" for additional information on FCC rulemaking concerning federal access rates, universal service and certain broadband services.

Other

Other revenues include services such as operator services (including deaf relay services), public (coin) telephone, card services and supply sales, as well as former MCI dial-around services including 10-10-987, 10-10-220, 1-800-COLLECT and Prepaid Cards.

Verizon Telecom's revenues from other services decreased by \$185 million, or 7.1% in 2006, and by \$93 million, or 3.5% in 2005. These revenue decreases were mainly due to the discontinuation of non-strategic businesses, including the termination of a large commercial inventory management contract in 2005, and reduced business volumes, which were partially offset by the inclusion of revenues from the former MCI in 2006.

Verizon Business

Enterprise Business

Our Enterprise Business market provides voice, data and internet communications services to medium and large business customers, multi-national corporations, and state and federal government customers. In addition, the Enterprise Business market also provides value-added services that make communications more secure, reliable and efficient managed network services for customers that outsource all or portions of their communications and information processing operations. Traditional local and long distance services comprise \$6,551 million, or 47% of revenue in 2006, \$4,110 million, or 68% of revenue in 2005, and \$4,447 million, or 72% of total Enterprise Business revenue in 2004. Enterprise Business also provides data services such as Private Line, Frame Relay and ATM services, both domestically and internationally, as well as managed network services to its customers.

Enterprise Business 2006 revenues of \$13,999 million, increased \$7,981 million, or 132.6% compared to 2005 primarily due to the acquisition of MCI, and declined \$178 million, or 2.9% in 2005 compared to 2004. Data services revenue was \$5,430, or 39% of Enterprise Business's revenue stream in 2006, \$1,908 million, or 32% in 2005, and \$1,749 million, or 28% in 2004. Internet services revenue was \$2,018 million in 2006, or 14% of Enterprise Business's revenues, the first year Enterprise Business offered Internet services. The Internet suite of products is Enterprise Business's fastest growing and includes Private IP, IP VPN, Web Hosting and VoIP.

Enterprise Business 2005 revenues of \$6,018 million declined \$178 million compared to 2004, primarily due to a 3.5% decline in business access lines, reflecting competition and a shift to high-speed, high volume special access lines.

Wholesale

Our Wholesale revenues relate to domestic wholesale services, which include all wholesale traffic sold in the United States, as well as international traffic that originates in the United States.

In the year ended December 31, 2006, our Verizon Business Wholesale revenues of \$3,381 million, increased \$2,005 million, or 145.7%, compared to 2005, primarily due to the MCI acquisition. Local and long distance voice products, including transport, represented \$1,601 million or 47% of the market's total revenue in 2006, the first year the Wholesale business group has offered voice products. Wholesale revenue is influenced by aggressive competitive pricing, in particular long distance voice services. Wholesale data and Internet revenues were \$1,780 million, or 52% of total Wholesale revenue for the year ended December 31, 2006, \$1,376 million, or 100% of total Wholesale revenue in 2005 and \$1,218 million, or 100% of total Wholesale revenues in 2004.

International and Other

Our International operations serve businesses, government entities and telecommunication carriers outside of the United States. Other operations include our Skytel paging business.

Our revenues from International and Other in the year ended December 31, 2006 were \$3,110 million. This market represents a new revenue stream to Verizon resulting from the MCI acquisition. International and Other had voice revenue of \$1,822 million in the year ended December 31, 2006, or 58% of the total International and Other revenues. Internet revenue represented \$894 million, or 29% of total revenue in the period. Data revenue was \$394 million, or 13% of total International and Other revenue in the year ended December 31, 2006.

Operating Expenses

	(dollars in millions)			
Years Ended December 31,	2006			
	2005			
	2004			
Cost of services and sales	\$ 24,522			
	\$ 15,604			
	\$ 14,830			
Selling, general and administrative expense	12,116			
	8,419			
	8,621			
Depreciation and amortization expense	9,590			
	8,801			
	8,910			
	\$ 46,228			
	\$ 32,824			
	\$ 32,361			

Cost of Services and Sales

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits, materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support, costs to support our outsourcing contracts and technical facilities, contributions to the universal service fund, customer provisioning costs and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expense.

Cost of services and sales increased by \$8,918 million, or 57.2% in 2006 compared to 2005. These increases were primarily due to the MCI merger in 2006 partially offset by the net impact of other cost changes. Higher costs associated with our growth businesses and annual wage increases were partially offset by productivity improvement initiatives, which reduced cost of services and sales expenses in 2006. Expenses were also impacted by increased net pension and other postretirement benefit costs. The overall impact of the 2006 assumption changes

combined with the impact of lower than expected actual asset returns over the past several years, resulted in pension and other postretirement benefit expense of \$1,408 million (primarily in cost of services and sales) in 2006 compared to net pension and postretirement benefit expense of \$1,248 million in 2005. Further, expenses decreased in both years due to the discontinuation of non-strategic businesses, including the termination of a large commercial inventory management contract in 2005.

In 2005, our cost of services and sales increased by \$774 million, or 5.2% compared to 2004. Costs in 2005 were impacted by increased pension and other postretirement benefit costs. At December 31, 2004, in connection with an evaluation of key employee benefit plan assumptions, the discount rate assumption was lowered from 6.25% in 2004 to 5.75% in 2005, consistent with interest rate levels at the end of 2004. Further, there was an increase in the retiree health care cost trend rates. The overall impact of these assumption changes, combined with the impact of lower than expected actual asset returns over the last several years, resulted in net pension and other postretirement

benefit expense (primarily in cost of services and sales) of \$1,248 million in 2005, compared to net pension and postretirement benefit expense of \$803 million in 2004. Also contributing to expense increases in cost of services and sales were higher costs associated with our growth businesses. Further, the expense increase was impacted by favorable adjustments to our interconnection expense in 2004, as a result of our ongoing reviews of local interconnection expense charged by CLECs and settlements with carriers.

Selling, General and Administrative Expense

Selling, general and administrative expenses in 2006 increased by \$3,697 million or 43.9% compared to 2005. These increases were primarily due to the inclusion of expenses from the former MCI in 2006 partially offset by synergy savings resulting from our merger integration efforts, the impact of gains from real estate sales and lower bad debt costs.

In 2005, our selling, general and administrative expense decreased by \$202 million, or 2.3% compared to 2004. This decrease was attributable to gains on the sale of real estate in 2005, lower property and gross receipts taxes and reduced bad debt costs, partially offset by higher net pension and benefit costs, as described above, and a prior year gain on the sale of two small business units.

Depreciation and Amortization Expense

The increase in depreciation and amortization expense of \$789 million, or 9.0% in 2006 was mainly driven by the acquisition of MCI's depreciable property and equipment and finite-lived intangibles, including its customer lists and capitalized non-network software, measured at fair value and by growth in depreciable telephone plant and non-network software assets. The decrease in depreciation and amortization expense of \$109 million or 1.2%, in 2005 compared to 2004 was mainly driven by lower rates of depreciation, partially offset by higher plant, property and equipment balances and software amortization costs.

Segment Income

(dollars in millions)				
Years Ended December 31,	2006			
	2005			
	2004			
Segment Income	\$ 1,634			
	\$ 1,906			
	\$ 2,652			

Segment income decreased by \$272 million, or 14.3% in 2006 and by \$746 million, or 28.1% in 2005, due to the after-tax impact of operating revenues and operating expenses described above, along with the impact of favorable income tax adjustments in 2005.

Special and non-recurring items not included in Verizon Wireline's segment income totaled \$407 million, (\$168) million and \$346 million in 2006, 2005, and 2004 respectively. Special and non-recurring items in 2006 included costs associated with severance activity, pension settlement losses, Verizon Center relocation-related costs, and merger integration costs. Merger integration costs primarily included costs related to advertising and re-branding initiatives, and labor and contractor costs related to information technology integration initiatives. Special and non-recurring items in 2005 related to the Hawaii results of operations and gain on the sale of the Hawaii wireline operations, the net gain on the sale of a New York City office building, changes to management retirement benefit plans, severance costs, and Verizon Center relocation-related costs. Special and non-recurring items in 2004

primarily included pension settlement losses, operating asset losses, and costs associated with the early retirement of debt, partially offset by an expense credit resulting from the favorable resolution of pre-bankruptcy amounts due from MCI as well as a gain on the sale of an investment.

Domestic Wireless

Our Domestic Wireless segment provides wireless voice and data services and equipment sales across the United States. This segment primarily represents the operations of the Verizon Wireless joint venture with Vodafone. Verizon owns a 55% interest in the joint venture and Vodafone owns the remaining 45%. All financial results included in the tables below reflect the consolidated results of Verizon Wireless.

Operating Revenues

(dollars in millions)				
Years Ended December 31,	2006	2005		
	2004			
Wireless sales and services	\$ 38,043	\$		
32,301	\$ 27,662			

Domestic Wireless's total revenues of \$38,043 million were \$5,742 million, or 17.8% higher in 2006 compared to 2005. Service revenues of \$32,796 million were \$4,665 million, or 16.6% higher than 2005. The service revenue increase was primarily due to a 15.0% increase in customers as of December 31, 2006 compared to December 31, 2005, and increased average revenue per customer. Equipment and other revenue increased \$1,077 million, or 25.8% in 2006 compared to 2005 principally as a result of increases in the number and price of wireless devices sold. Other revenue also increased due to increases in regulatory fees, primarily the universal service fund, and cost recovery surcharges.

Our Domestic Wireless segment ended 2006 with 59.1 million customers, an increase of 7.7 million net new customers, or 15.0% compared to December 31, 2005. Substantially all of the net customers added during 2006 were retail customers. The overall composition of our Domestic Wireless customer base as of December 31, 2006 was 92.6% retail postpaid, 3.6% retail prepaid and 3.8% resellers. Total average monthly churn, the rate at which customers disconnect service, decreased to 1.17% in 2006 compared to 1.26% in 2005. Retail postpaid churn decreased to 0.9% in 2006 compared to 1.1% in 2005.

Average revenue per customer per month increased 0.6% to \$49.80 in 2006 compared to 2005. Average service revenue per customer reflected a 72% increase in data revenue per customer in 2006, compared to 2005, driven by increased use of our messaging, *VZAccess* and other data services. Retail service revenue per retail customer of \$50.44 also grew in 2006, compared to 2005. However, Domestic Wireless continued to experience an increase in the proportion of customers on its Family Share price plans, which put downward pressure on average service revenue per customer during 2006. Data revenues were \$4,475 million and accounted for 13.6% of service revenue in 2006, compared to \$2,243 million and 8.0% of service revenue in 2005.

Domestic Wireless's total revenues of \$32,301 million were \$4,639 million, or 16.8% higher in 2005 compared to 2004. Service revenues of \$28,131 million were \$3,731 million, or 15.3% higher than 2004. This revenue growth was primarily due to increased customers, partially offset by a decrease in average revenue per customer per month, and increases in equipment and other revenue, principally as a result of an increase in wireless devices sold together with an increase in revenue per unit sold. At December 31, 2005, customers totaled 51.3 million, an

increase of 17.2% compared to December 31, 2004. Retail net additions accounted for 7.2 million, or 95.8% of the total net additions. Total churn decreased to 1.3% in 2005, compared to 1.5% in 2004. Retail postpaid churn decreased to 1.1% in 2005 compared to 1.3% in 2004.

Average revenue per customer per month decreased 1.5% to \$49.49 in 2005 compared to 2004, primarily due to pricing changes to our America's Choice and Family Share plans earlier in the year. Partially offsetting the impact of these pricing changes was a 71.7% increase in data revenue per customer in 2005 compared to 2004, driven by increased use of our messaging and other data services. Data revenues were \$2,243 million and accounted for 8.0% of service revenue in 2005, compared to \$1,116 million and 4.6% of service revenue in 2004.

Operating Expenses

	(dollars in millions)	
Years Ended December 31,	2006	2005
	2004	
Cost of services and sales	\$ 11,491	\$ 9,393
Selling, general and administrative expense	12,039	10,768
Depreciation and amortization expense	4,913	4,760
	4,486	
	\$ 28,443	\$ 24,921
	\$ 21,824	

Cost of Services and Sales

Cost of services and sales, which are costs to operate the wireless network as well as the cost of roaming, long distance and equipment sales, increased by \$2,098 million, or 22.3% in 2006 compared to 2005. Cost of services increased due to higher wireless network costs in 2006 caused by increased network usage relating to both voice and data services, partially offset by lower rates for long distance, roaming and local interconnection. Cost of equipment sales grew by 29.7% in 2006 compared to 2005. The increase was primarily attributed to an increase in wireless devices sold, resulting from an increase in equipment upgrades and gross retail activations, together with an increase in cost per unit driven by increased sales of higher cost advanced wireless devices, in 2006, compared to 2005.

Cost of services and sales increased by \$1,646 million, or 21.2% in 2005 compared to 2004. This increase was primarily due to higher network charges resulting from increased network usage in 2005 compared to 2004, and an increase in cost of equipment sales driven by increased wireless devices sold and equipment upgrades in 2005 compared to 2004.

Selling, General and Administrative Expense

Selling, general and administrative expense increased by \$1,271 million, or 11.8% in 2006 compared to 2005. This increase was primarily due to an increase in salary and benefits expense of \$632 million, resulting from an increase in employees, primarily in the sales and customer care areas, and higher per employee salary and benefit costs. Advertising and promotion expense increased \$207 million in 2006, compared to 2005. Also contributing to the increase were higher costs associated with regulatory fees, primarily the universal service fund, which increased by \$167 million in 2006 compared to 2005.

Selling, general and administrative expense increased by \$1,177 million, or 12.3% in 2005 compared to 2004. This increase was primarily due to increased salary and benefits expense and higher sales commissions, related to an increase in customer additions and renewals during 2005 compared to 2004.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by \$153 million, or 3.2% in 2006 compared to 2005 and increased by \$274 million, or 6.1% in 2005 compared to 2004. These increases were primarily due to increased depreciation expense related to the increases in depreciable assets. The increase in 2006 was partially offset by a decrease in amortization expense due to fully amortized customer lists.

Segment Income

					(dollars in millions)
Years Ended December 31,	2006				
	2005				
	2004				
Segment Income	\$ 2,976				
	\$ 2,219				
	\$ 1,645				

Segment income increased by \$757 million, or 34.1% in 2006 compared to 2005 and increased by \$574 million, or 34.9% in 2005 compared to 2004, primarily as a result of the after-tax impact of operating revenues and operating expenses described above, partially offset by higher minority interest expense. Special and non-recurring items of \$42 million after-tax were due to the adoption of SFAS 123 (R). There were no special items affecting this segment in 2005 or 2004.

Increases in minority interest expense in 2006 and 2005 were principally due to the increased income of the wireless joint venture and the significant minority interest attributable to Vodafone.

Special Items

Disposition of Businesses and Investments
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Sale of Discontinued Operations

On December 1, 2006, we closed the sale of Verizon Dominicana. The transaction resulted in net pretax cash proceeds of \$2,042 million. The U.S. taxes that became payable and were recognized at the time the transaction closed significantly exceeded the amount of the pretax gain of \$30 million. The sale resulted in an after-tax loss of \$541 million (or \$.18 per diluted share). There were no similar items in 2005. In 2004, we closed on the sale of Verizon Information Services Canada Inc. and recorded a gain of \$1,017 million (\$516 million after-tax, or \$.18 per diluted share).

Sales of Businesses, Net

During 2005, we sold our wireline and directory businesses in Hawaii, including Verizon Hawaii Inc. which operated approximately 700,000 switched access lines, as well as the services and assets of Verizon Long Distance, Verizon Online, Verizon Information Services and Verizon Select Services Inc. in Hawaii, to an affiliate of The Carlyle Group for \$1,326 million in cash proceeds. In connection with this sale, we recorded a net pretax gain of \$530 million (\$336 million after-tax, or \$.12 per diluted share). There were no similar items in 2006 and 2004.

Sales of Investments, Net

During 2004, we recorded a pretax gain of \$787 million (\$565 million after-tax, or \$.20 per diluted share) on the sale of our 20.5% interest in TELUS in an underwritten public offering in the U.S. and Canada. In connection with this sale transaction, Verizon recorded a contribution of \$100 million to Verizon Foundation to fund its charitable activities and increase its self-sufficiency. Consequently, we recorded a net gain of \$500 million after taxes, or \$.18 per diluted share related to this transaction and the accrual of the Verizon Foundation contribution.

Also during 2004, we sold all of our investment in Iowa Telecom preferred stock, which resulted in a pretax gain of \$43 million (\$43 million after-tax, or \$.02 per diluted share). This preferred stock was received in 2000 in connection with the sale of access lines in Iowa. There were no similar items in 2006 and 2005.

Spin-off Related Charges

In 2006, we recorded pretax charges of \$117 million (\$101 million after-tax, or \$.03 per diluted share) for costs related to the spin-off of Idearc. These costs primarily consisted of banking and legal fees, as well as filing fees, printing and mailing costs. There were no similar charges in 2005 and 2004.

Merger Integration Costs

In 2006, we recorded pretax charges of \$232 million (\$146 million after-tax, or \$.05 per diluted share) related to integration costs associated with the MCI acquisition that closed on January 6, 2006. These costs are primarily comprised of advertising and other costs related to re-branding initiatives and systems integration activities. There were no similar charges incurred in 2005 and 2004.

Facility and Employee-Related Items

During 2006, we recorded pretax charges of \$184 million (\$118 million after-tax) in connection with the continued relocation of employees and business operations to Verizon Center located in Basking Ridge, New Jersey. During 2005, we recorded a net pretax gain of \$18 million (\$8 million after-tax) in connection with this relocation of our new operations center, Verizon Center, including a pretax gain of \$120 million (\$72 million after-tax) related to the sale of a New York City office building, partially offset by a pretax charge of \$102 million (\$64 million after-tax) primarily associated with relocation, employee severance and related activities. There were no similar charges incurred in 2004.

During 2006, we recorded net pretax severance, pension and benefits charges of \$425 million (\$258 million after-tax, including \$3 million of income recorded to discontinued operations, or \$.09 per diluted share). These charges included net pretax pension settlement losses of \$56 million (\$26 million after-tax, or \$.01 per diluted share) related to employees that received lump-sum distributions primarily resulting from our separation plans. These charges were recorded in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS No. 88), which requires that settlement losses be recorded once prescribed payment thresholds have been reached. Also included are pretax

charges of \$369 million (\$228 million after-tax, or \$.08 per diluted share), for employee severance and severance-related costs in connection with the involuntary separation of approximately 4,100 employees. In addition, during 2005 we recorded a charge of \$59 million (\$36 million after-tax, or \$.01 per diluted share) associated with employee severance costs and severance-related activities in connection with the voluntary separation program for surplus union-represented employees.

During 2005, we recorded a net pretax charge of \$98 million (\$59 million after-tax) related to the restructuring of the Verizon management retirement benefit plans. This pretax charge was recorded in accordance with SFAS No. 88, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106) and includes the unamortized cost of prior pension enhancements of \$430 million offset partially by a pretax curtailment gain of \$332 million related to retiree medical benefits. In connection with this restructuring, management employees: no longer earn pension benefits or earn service towards the company retiree medical subsidy after June 30, 2006; received an 18-month enhancement of the value of their pension and retiree medical subsidy; and receive a higher savings plan matching contribution.

During 2004, we recorded pretax pension settlement losses of \$805 million (\$492 million after-tax) related to employees that received lump-sum distributions during 2004 in connection with the voluntary separation plan under which more than 21,000 employees accepted the separation offer in the fourth quarter of 2003. These charges were recorded in accordance with SFAS No. 88. In addition, we recorded a \$7 million after-tax charge in income from discontinued operations, related to the 2003 separation plan.

Tax Matters

During 2005, we recorded tax benefits of \$336 million in connection with capital gains and prior year investment losses. As a result of the capital gain realized in 2005 in connection with the sale of our Hawaii businesses, we recorded a tax benefit of \$242 million related to capital losses incurred in previous years. The investment losses pertain to Iusacell, CTI Holdings, S.A. (CTI) and TelecomAsia.

Also during 2005, we recorded a net tax provision of \$206 million related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004, for two of our foreign investments.

As a result of the capital gain realized in 2004 in connection with the sale of Verizon Information Services Canada, we recorded tax benefits of \$234 million in the fourth quarter of 2004 pertaining to prior year investment impairments. The investment impairments primarily related to debt and equity investments in CTI, Cable & Wireless plc and NTL Incorporated.

Other Special Items

During 2006, we recorded pretax charges of \$26 million (\$16 million after-tax, or \$.01 per diluted share) resulting from the extinguishment of debt assumed in connection with the completion of the MCI merger.

As discussed in the "Cumulative Effect of Accounting Change" section, during 2006, we recorded after-tax charges of \$42 million (\$.01 per diluted share) to recognize the adoption of SFAS No. 123 (R).

During 2005, we recorded pretax charges of \$139 million (\$133 million after-tax, or \$.05 per diluted share) including a pretax impairment charge of \$125 million (\$125 million after-tax, or \$.04 per diluted share) pertaining to aircraft leased to airlines involved in bankruptcy proceedings and a pretax charge of \$14 million (\$8 million after-tax, or less than \$.01 per diluted share) in connection with the early extinguishment of debt.

In the second quarter of 2004, we recorded an expense credit of \$204 million (\$123 million after-tax, or \$.04 per

diluted share) resulting from the favorable resolution of pre-bankruptcy amounts due from MCI that were recovered upon the emergence of MCI from bankruptcy.

Also during 2004, we recorded a charge of \$113 million (\$87 million after-tax, or \$.03 per diluted share) related to operating asset losses pertaining to our international long distance and data network. In addition, we recorded pretax charges of \$55 million (\$34 million after-tax, or \$.01 per diluted share) in connection with the early extinguishment of debt.

Consolidated Financial Condition			
			(dollars in millions)
Years Ended December 31,	2006	2005	
			2004
Cash Flows Provided By (Used In)			
Operating activities	\$ 24,106	\$	
22,025		\$ 21,791	
Investing activities	(15,616)		
	(18,492)		
	(10,343)		
Financing activities	(6,031)		
	(5,034)		
	(9,856)		
Increase (Decrease) In Cash and Cash Equivalents	\$ 2,459	\$	
(1,501	)	\$ 1,592	

We use the net cash generated from our operations to fund network expansion and modernization, repay external financing, pay dividends and invest in new businesses. Additional external financing is utilized when necessary. While our current liabilities typically exceed current assets, our sources of funds, primarily from operations and, to the extent necessary, from readily available external financing arrangements, are sufficient to meet ongoing operating and investing requirements. We expect that capital spending requirements will continue to be financed primarily through internally generated funds. Additional debt or equity financing may be needed to fund additional development activities or to maintain our capital structure to ensure our financial flexibility.

Cash Flows Provided By Operating Activities			
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Our primary source of funds continues to be cash generated from operations. In 2006, the increase in cash from operating activities compared to 2005 was primarily due to higher earnings at Domestic Wireless, which included higher minority interest earnings, and lower dividends paid to minority partners. Total minority interest earnings, net of dividends paid to minority interest partners, was \$3.2 billion in 2006 compared to \$1.7 billion in 2005. In addition, higher operating cash flow in 2006 compared to 2005 was due to lower cash taxes paid in 2006, resulting

from 2005 tax payments related to foreign operations and investments sold during the fourth quarter of 2004. Partially offsetting these increases were significant 2005 repatriations of foreign earnings of unconsolidated businesses.

In 2005, the increase in cash from operations compared to 2004 was primarily driven higher by the repatriation of \$2.2 billion of foreign earnings from unconsolidated businesses, higher minority interest earnings, net of dividends paid to minority partners of \$1.0 billion and lower severance payments in 2005. These increases were largely offset by higher cash income tax payments, including taxes paid in 2005 related to the 2004 sales of Verizon Information Services Canada and TELUS shares, and higher pension fund contributions.

Operating cash flows from discontinued operations decreased \$505 million to \$1,076 million in 2006 due to the completion of the Idearc spin-off on November 17, 2006 and the close of the sale of Verizon Dominicana on December 1, 2006, partially offset by the operating activities of the remaining assets held for sale. Operating cash flows from discontinued operations decreased \$34 million from \$1,615 million in 2004 to \$1,581 million in 2005 due to the completion of the sale of Verizon Information Services Canada in the fourth quarter of 2004, partially offset by operating activities of the remaining assets held for sale.

Cash Flows Used In Investing Activities

Capital expenditures continue to be our primary use of capital resources as they facilitate the introduction of new products and services, enhance responsiveness to competitive challenges and increase the operating efficiency and productivity of our networks. Including capitalized software, we invested \$10,259 million in our Wireline business in 2006, compared to \$8,267 million and \$7,118 million in 2005 and 2004, respectively. We also invested \$6,618 million in our Verizon Wireless business in 2006, compared to \$6,484 million and \$5,633 million in 2005 and 2004, respectively. The increase in capital spending at Wireline is mainly driven by the acquisition of MCI, coupled with increased spending in high growth areas such as broadband. Capital spending at Verizon Wireless represents our continuing effort to invest in this high growth business.

In 2007, capital expenditures including capitalized software are expected to be in the range of \$17.5 billion to \$17.9 billion.

In 2006, we invested \$1,422 million in acquisitions and investments in businesses, including \$2,809 million to acquire thirteen 20 MHz licenses in connection with the FCC Advanced Wireless Services auction and \$57 million to acquire other wireless properties. This was offset by MCI's cash balances of \$2,361 million at the date of the merger, of which \$779 million was used for a cash payment to MCI shareholders. In 2005, we invested \$4,684 million in acquisitions and investments in businesses, including \$3,003 million to acquire NextWave Telecom Inc. (NextWave) personal communications services licenses, \$641 million to acquire 63 broadband wireless licenses in connection with FCC auction 58, \$419 million to purchase Qwest Wireless, LLC's spectrum licenses and wireless network assets in several existing and new markets, \$230 million to purchase spectrum from MetroPCS, Inc. and \$297 million for other wireless properties and licenses. In 2004, we invested \$1,196 million in acquisitions and investments in businesses, including \$1,052 million for wireless licenses and businesses, including a NextWave license covering the New York metropolitan area, and \$144 million related to Verizon's limited partnership investments in entities that invest in affordable housing projects.

In 2005, we received cash proceeds of \$1,326 million in connection with the sale of Verizon's wireline operations in Hawaii. In 2004, we received cash proceeds of \$117 million from the sale of a small business unit.

Our short-term investments include principally cash equivalents held in trust accounts for payment of employee benefits. In 2006, 2005 and 2004, we invested \$1,915 million, \$1,955 million and \$1,801 million, respectively, in short-term investments, primarily to pre-fund active employees' health and welfare benefits. Proceeds from the sales of all short-term investments, principally for the payment of these benefits, were \$2,205 million, \$1,609 million and \$1,711 million in the years 2006, 2005 and 2004, respectively.

Other, net investing activities for 2006 include cash proceeds of \$283 million from property sales. Other, net investing activities for 2005 includes a net investment of \$913 million for the purchase of 43.4 million shares of MCI common stock from eight entities affiliated with Carlos Slim Helú, offset by cash proceeds of \$713 million from property sales, including a New York City office building, and \$349 million of repatriated proceeds from the sales of European investments in prior years. Other, net investing activities for 2004 includes net cash proceeds of \$1,632 million received in connection with the sale of our 20.5% interest in TELUS and \$650 million in connection with sales of our interests in various other investments, including a partnership venture with Crown Castle International Corp., EuroTel Bratislava, a.s. and Iowa Telecom preferred stock.

In 2006, investing activities of discontinued operations include net pretax cash proceeds of \$2,042 million in connection with the sale of Verizon Dominicana. In 2005, investing activities of discontinued operations are primarily related to capital expenditures related to discontinued operations. In 2004, investing activities of discontinued operations include cash proceeds of \$1,603 million from the sale of Verizon Information Services Canada, partially offset by capital expenditures related to discontinued operations.

Under the terms of an investment agreement, Vodafone had the right to require Verizon Wireless to purchase up to an aggregate of \$20 billion worth of Vodafone's interest in Verizon Wireless at designated times (put windows) at its then fair market value, not to exceed \$10 billion in any one put window. Vodafone had the right to require the purchase of up to \$10 billion during a 61-day period which opened on June 10 and closed on August 9 in 2006, and did not exercise that right. As of December 31, 2006, Vodafone only has the right to require the purchase of up to \$10 billion worth of its interest, during a 61-day period opening on June 10 and closing on August 9 in 2007, under its one remaining put window. Vodafone also may require that Verizon Wireless pay for up to \$7.5 billion of the required repurchase through the assumption or incurrence of debt. In the event Vodafone exercises its one remaining put right, we (instead of Verizon Wireless) have the right, exercisable at our sole discretion, to purchase up to \$2.5 billion of Vodafone's interest for cash or Verizon stock at our option.

Cash Flows Used In Financing Activities

Our total debt was reduced by \$1,896 million during 2006. We repaid \$6,838 million of Wireline debt, including premiums associated with the retirement of \$5,665 million of aggregate principal amount of long-term debt assumed in connection with the MCI merger. The Wireline repayments also included the early retirement/prepayment of \$697 million of long-term debt and \$155 million of other long-term debt at maturity. We repaid \$2.5 billion of Domestic Wireless 5.375% fixed rate notes that matured on December 15, 2006. At December 31, 2006, Verizon Wireless had no third-party debt. Also, we redeemed the \$1,375 million accreted principal of our remaining zero-coupon convertible notes and retired \$482 million of other corporate long-term debt at maturity. These repayments were partially offset by our issuance of long-term debt with a total aggregate principal amount of \$4,000 million, resulting in cash proceeds of \$3,958 million, net of discounts, issuance costs and the receipt of cash proceeds related to hedges on the interest rate of an anticipated financing. In connection with the spin-off of Idearc, we received net cash proceeds of approximately \$2 billion and retired debt in the aggregate principal amount of approximately \$7 billion (see Other Consolidated Results - Discontinued Operations - Verizon Information Services).

Cash of \$240 million was used to reduce our total debt during 2005. We repaid \$1,533 million of Domestic Wireless, \$1,183 million of Wireline and \$1,109 million of Verizon corporate long-term debt. The Wireline debt repayment included the early retirement of \$350 million of long-term debt and \$806 million of other long-term debt at maturity. This decrease was largely offset by the issuance by Verizon corporate of long-term debt with a total principal amount of \$1,500 million, resulting in total cash proceeds of \$1,478 million, net of discounts and costs, and an increase in our short-term borrowings of \$2,098 million.

Cash of \$5,401 million was used to reduce our total debt during 2004. We repaid \$2,315 million and \$2,769 million of Wireline and Verizon corporate long-term debt, respectively. The Wireline debt repayment includes the early retirement of \$1,275 million of long-term debt and \$950 million of other long-term debt at maturity. The

corporate debt repayment includes \$1,984 million of zero-coupon convertible notes redeemed by Verizon corporate and \$723 million of other corporate long-term debt at maturity. Also, during 2004, we decreased our short-term borrowings by \$747 million and Verizon corporate issued \$500 million of long-term debt.

Our ratio of debt to debt combined with shareowners' equity was 42.8% at December 31, 2006 compared to 49.1% at December 31, 2005.

As of December 31, 2006, we had no bank borrowings outstanding. We also had approximately \$6.2 billion of unused bank lines of credit (including a \$6.0 billion three-year committed facility that expires in September 2009 and various other facilities totaling approximately \$400 million) and we had shelf registrations for the issuance of up to \$4.5 billion of unsecured debt securities. The debt securities of Verizon and our telephone subsidiaries continue to be accorded high ratings by primary rating agencies. In order to simplify and streamline our financing entities, Verizon Global Funding merged into Verizon Communications on February 1, 2006. Verizon Communications is now the primary issuer of all long-term and short-term debt for Verizon. The short-term ratings of Verizon Communications are: Moody's P-2;

S&P A-1; and Fitch F1. The long-term ratings of Verizon Communications are: Moody's A3 with stable outlook; S&P A with negative outlook; and Fitch A+ with stable outlook. In June 2006, the long-term debt rating of Verizon Wireless was upgraded by Moody's to A2 from A3 and assigned a stable outlook and the long-term debt rating of Verizon Communications was affirmed at A3 with a stable outlook. In December 2006, Fitch affirmed the long-term debt rating of Verizon Communications at A+ with a stable outlook. Following the maturity of its remaining external debt in December 2006, Moody's and Fitch withdrew the rating on Verizon Wireless.

We and our consolidated subsidiaries are in compliance with all of our debt covenants.

As in prior years, dividend payments were a significant use of capital resources. We determine the appropriateness of the level of our dividend payments on a periodic basis by considering such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. In 2006 and 2005, Verizon declared quarterly cash dividends of \$.405 per share. In 2004, we declared quarterly cash dividends of \$.385 per share.

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans. On January 19, 2006, the Board of Directors determined that no additional common shares could be purchased under previously authorized share repurchase programs and gave authorization to repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2008. We repurchased \$1,700 million of our common stock as part of this program.

Increase (Decrease) In Cash and Cash Equivalents

Our cash and cash equivalents at December 31, 2006 totaled \$3,219 million, a \$2,459 increase compared to cash and cash equivalents at December 31, 2005 of \$760 million. The increase in cash and cash equivalents in 2006 was primarily driven by proceeds from the disposition of Verizon Dominicana and the spin-off of Idearc, cash acquired in connection with the merger of MCI and higher debt borrowings, partially offset by increased capital expenditures and higher repayments of borrowings. Our cash and cash equivalents at December 31, 2005 totaled \$760 million, a \$1,501 million decrease compared to cash and cash equivalents at December 31, 2004 of \$2,261 million. The decrease in cash and cash equivalents in 2005 was primarily driven by increased capital expenditures and higher acquisitions and investments, partially offset by proceeds from the sale of businesses and lower repayments of borrowings.

Employee Benefit Plan Funded Status and Contributions

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 requires the recognition of a defined benefit postretirement plan's funded status as either an asset or liability on the balance sheet. SFAS No. 158 also requires the immediate recognition of the unrecognized actuarial gains and losses and prior service costs and credits that arise during the period as a component of Other Accumulated Comprehensive Income, net of applicable income taxes. Additionally, the fair value of plan assets must be determined as of the company's year-end. We adopted SFAS No. 158 effective December 31, 2006 which resulted in a net decrease to shareowners' investment of \$6,883 million. This included a net increase in pension obligations of \$2,403 million, an increase in Other Postretirement Benefits Obligations of \$10,828 million and an increase in Other Employee Benefit Obligations of \$31 million, partially offset by a net decrease of \$1,205 million to reverse the Additional Minimum Pension Liability and an increase in deferred taxes of \$5,174 million.

Prior to the adoption of SFAS No. 158 we evaluated each pension plan to determine whether an additional minimum pension liability was required or whether any adjustment was necessary as determined by the provisions of SFAS No. 87, *Employers' Accounting for Pensions*. In 2005, we recorded a benefit of \$51 million, net of tax, primarily in Employee Benefit Obligations in the consolidated balance sheets. The changes in the assets and liabilities were recorded in Accumulated Other Comprehensive Loss, net of a tax benefit, in shareowners' investment in the consolidated balance sheets.

We operate numerous qualified and nonqualified pension plans and other postretirement benefit plans. These plans primarily relate to our domestic business units. The majority of Verizon's pension plans are adequately funded. We contributed \$451 million, \$593 million and \$145 million in 2006, 2005 and 2004, respectively, to our qualified pension trusts. We also contributed \$117 million, \$105 million and \$114 million to our nonqualified pension plans in 2006, 2005 and 2004, respectively.

Based on the funded status of the plans at December 31, 2006, we anticipate qualified pension trust contributions of \$510 million in 2007. Our estimate of required qualified pension trust contributions for 2008 is approximately \$300 million. Nonqualified pension contributions are estimated to be approximately \$120 million and \$180 million for 2007 and 2008, respectively.

Contributions to our other postretirement benefit plans generally relate to payments for benefits primarily on an as-incurred basis since the other postretirement benefit plans do not have funding requirements similar to the pension plans. We contributed \$1,099 million, \$1,040 million and \$1,099 million to our other postretirement benefit plans in 2006, 2005 and 2004, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately \$1,210 million in 2007 and \$1,580 million in 2008, prior to anticipated receipts related to Medicare subsidies.

Leasing Arrangements

We are the lessor in leveraged and direct financing lease agreements under which commercial aircraft and power generating facilities, which comprise the majority of the portfolio, along with industrial equipment, real estate, telecommunications and other equipment are leased for remaining terms of less than 1 year to 49 years as of December 31, 2006. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which holds a senior security interest in the leased assets and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with generally accepted accounting principles. All recourse debt is reflected in our consolidated balance sheets. See "Special Items" for a discussion of lease impairment charges.

swap agreements, interest rate locks, foreign currency forwards and collars and equity options. We do not hold derivatives for trading purposes.

It is our general policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve our desired objectives in limiting our exposures to the various market risks. Our objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. We do not hedge our market risk exposure in a manner that would completely eliminate the effect of changes in interest rates, equity prices and foreign exchange rates on our earnings. We do not expect that our net income, liquidity and cash flows will be materially affected by these risk management strategies.

Interest Rate Risk

The table that follows summarizes the fair values of our long-term debt and interest rate derivatives as of December 31, 2006 and 2005. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward parallel shifts in the yield curve. Our sensitivity analysis did not include the fair values of our commercial paper and bank loans because they are not significantly affected by changes in market interest rates.

		(dollars in millions)	
At December 31, 2006	Fair Value	Fair Value assuming +100 basis point shift	Fair Value assuming -100 basis point shift
Long-term debt and interest rate derivatives	\$ 33,569	\$ 31,724	
	\$ 35,607		
At December 31, 2005			
Long-term debt and interest rate derivatives	\$ 37,340	\$ 35,421	
	\$ 39,478		

Foreign Currency Translation

The functional currency for our foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars are recorded as cumulative translation adjustments, which are included in Accumulated Other Comprehensive Loss in our consolidated balance sheets. The translation gains and losses of foreign currency transactions and balances are recorded in the consolidated statements of income in Other Income and (Expense), Net and Income from Discontinued Operations, Net of Tax. At December 31, 2006, our primary translation exposure was to the Venezuelan bolivar, British pound and the euro. During 2005, we entered into zero cost euro collars to hedge a portion of our net investment in Vodafone Omnitel. In accordance with the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and related amendments and interpretations, changes in the fair value of these contracts due to exchange rate fluctuations are recognized in Accumulated Other Comprehensive Loss and offset the impact of foreign currency changes on the value of our net investment in the operation being hedged. As of December 31, 2005, our positions in the zero cost euro collars have been settled. We have not hedged our accounting translation exposure to foreign currency fluctuations relative to the carrying value of our other investments.

Significant Accounting Policies and Recent Accounting Pronouncements

Significant Accounting Policies

A summary of the significant accounting policies used in preparing our financial statements are as follows:

- Special and non-recurring items generally represent revenues and gains as well as expenses and losses that are non-operational and/or non-recurring in nature. Special and non-recurring items include asset impairment losses, which were determined in accordance with our policy of comparing the fair value of the asset with its carrying value. The fair value is determined by quoted market prices or by estimates of future cash flows. There is inherent subjectivity involved in estimating future cash flows, which can have a significant impact on the amount of any impairment.

- Verizon’s plant, property and equipment balance represents a significant component of our consolidated assets. Depreciation expense on Verizon’s local telephone operations is principally based on the composite group remaining life method and straight-line composite rates, which provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. We depreciate other plant, property and equipment generally on a straight-line basis over the estimated useful life of the assets. Changes in the remaining useful lives of assets as a result of technological change or other changes in circumstances, including competitive factors in the markets where we operate, can have a significant impact on asset balances and depreciation expense.

- We maintain benefit plans for most of our employees, including pension and other postretirement benefit plans. In the aggregate, the fair value of pension plan assets exceeds benefit obligations, which contributes to pension plan income. Other postretirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant benefit plan assumptions, including the discount rate used, the long-term rate of return on plan assets and health care trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations (see “Consolidated Results of Operations - Consolidated Operating Expenses - Pension and Other Postretirement Benefits”). A sensitivity analysis of the impact of changes in these assumptions on the benefit obligations and expense (income) recorded as of December 31, 2006 and for the year then ended pertaining to Verizon’s pension and postretirement benefit plans is provided in the tables below. Note that some of these sensitivities are not symmetrical as the calculations were based on all of the actuarial assumptions as of year-end.

	(dollars in millions)		
	Percentage point change		Benefit
obligation increase (decrease) at December 31, 2006			Expense increase (decrease) for the year ended
December 31, 2006			
Pension plans discount rate	+ 1.00	\$ (3,844)
	\$ (130)	
	- 1.00	4,597	
	266		
Long-term rate of return on pension plan assets	+ 1.00	-	

		(378)			
		- 1.00		-	
		378			
Postretirement plans discount rate		+ 1.00		(3,245)	
		(209)			
		- 1.00		3,693	
		236			
Long-term rate of return on postretirement plan assets			+ 1.00	-	
		(40)			
		- 1.00		-	
		40			
Health care trend rates		+ 1.00		3,339	
		472			
		- 1.00		(2,731)	
		(357)			

• Our accounting policy concerning the method of accounting applied to investments (consolidation, equity or cost) involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the operations of the entity in which we have invested. Where control is determined, we consolidate the investment. If we determine that we have significant influence over the operating and financial policies of an entity in which we have invested, we apply the equity method. We apply the cost method in situations where we determine that we do not have significant influence.

• Our current and deferred income taxes, and associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards, acquisitions of businesses and special and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred income tax assets and the timing of income tax payments. Actual collections and payments may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances.

• Goodwill and other intangible assets are a significant component of our consolidated assets. Wireline goodwill of \$5,310 million represents the largest component of our goodwill and, as required by SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), is periodically evaluated for impairment. The evaluation of Wireline goodwill for impairment is primarily based on a discounted cash flow model that includes estimates of future cash flows. There is inherent subjectivity involved in estimating future cash flows, which can have a material impact on the amount of any potential impairment. Wireless licenses of \$50,959 million represent the largest component of our intangible assets. Our wireless licenses are indefinite-lived intangible assets, and as required by SFAS No. 142, are not amortized but are periodically evaluated for impairment. Any impairment loss would be determined by comparing the fair value of the wireless licenses with their carrying value. For 2004 and 2003, we used a residual method, which determined fair value by estimating future cash flows of the wireless business. Beginning in 2005, we began using a direct value approach in accordance with a September 29, 2004 Staff Announcement from the staff of the Securities and Exchange Commission (SEC), "Use of the Residual Method to Value Acquired Assets Other Than Goodwill." The direct value approach also determines fair value by estimating future cash flows. There is inherent subjectivity involved in estimating future cash flows, which can have a material impact on the amount of any impairment.

Other Recent Accounting Pronouncements

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 requires the recognition of a defined benefit postretirement plan's funded status as either an asset or liability on the balance sheet. SFAS No. 158 also requires the immediate recognition of the unrecognized actuarial gains and losses and prior service costs and credits that arise during the period as a component of Other Accumulated Comprehensive Income, net of applicable income taxes. Additionally, the fair value of plan assets must be determined as of the company's year-end. We adopted SFAS No. 158 effective December 31, 2006, which resulted in a net decrease to shareowners' investment of \$6,883 million.

Uncertainty in Income Taxes

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding

uncertainties in income tax positions. We are required to adopt FIN 48 effective January 1, 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings (or to goodwill, in certain cases for a prior acquisition) in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized upon adoption of FIN 48. We anticipate that as a result of the adoption of FIN 48, we will record an adjustment to our opening retained earnings. We are also reviewing the potential impact of FIN 48 on prior purchase accounting. Any such purchase accounting adjustment will not impact retained earnings or current earnings. We are reviewing the final impact of the adoption of FIN 48. We anticipate that any required adjustment under the adoption of FIN 48 will not be material.

Leveraged Leases

In July 2006, the FASB issued Staff Position No. FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" (FSP 13-2). FSP 13-2 requires that changes in the projected timing of income tax cash flows generated by a leveraged lease transaction be recognized as a gain or loss in the year in which change occurs. We are required to adopt FSP 13-2 effective January 1, 2007. The cumulative effect of initially adopting this FSP will be recorded as an adjustment to opening retained earnings in the year of adoption. We anticipate that any required adjustment under the adoption of FSP 13-2 will not be material.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157 expands disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. We are required to adopt SFAS No. 157 effective January 1, 2008 on a prospective basis. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

Other Factors That May Affect Future Results

Recent Developments

MCI Merger

On January 6, 2006, Verizon acquired 100% of the outstanding common stock of MCI, Inc. (MCI) for a combination of Verizon common shares and cash. MCI was a global communications company that provided Internet, data and voice communication services to businesses and government entities throughout the world and consumers in the United States.

On April 9, 2005, Verizon entered into a stock purchase agreement with eight entities affiliated with Carlos Slim Helú to purchase 43.4 million shares of MCI common stock for \$25.72 per share in cash plus an additional cash amount of 3% per annum from April 9, 2005, until the closing of the purchase of those shares. The transaction closed on May 17, 2005. The total cash payment was \$1,121 million and the investment was originally accounted for as a cost investment. No payments were made under a provision that required Verizon to pay an additional amount at the end of one year to the extent that the price of Verizon's common stock exceeded \$35.52 per share. We received a special dividend of \$5.60 per MCI share on these 43.4 million MCI shares, or \$243 million, on October 27, 2005.

Under the terms of the merger agreement, MCI shareholders received .5743 shares of Verizon common stock (\$5,050 million in the aggregate) and cash of \$2.738 (\$779 million in the aggregate) for each of their MCI shares. The merger consideration was equal to \$20.40 per MCI share, excluding the \$5.60 per share special dividend paid by MCI to its shareholders on October 27, 2005. There was no purchase price adjustment.

Price Communications

In August 2002, Verizon Wireless and Price Communications Corp. (Price) combined Price's wireless business with a portion of Verizon Wireless. The resulting limited partnership, Verizon Wireless of the East LP (VZ East), is controlled and managed by Verizon Wireless. In exchange for its contributed assets, Price received a limited partnership interest in the new partnership which was exchangeable into the common stock of Verizon Wireless if an initial public offering of that stock occurred, or into the common stock of Verizon on the fourth anniversary of the asset contribution date. On August 15, 2006, Verizon delivered 29.5 million shares of newly-issued Verizon common stock to Price valued at \$1,007 million in exchange for Price's limited partnership interest in VZ East. As a result of acquiring Price's limited partnership interest, Verizon recorded goodwill of \$345 million in the third quarter of 2006 attributable to its Domestic Wireless segment.

Disposition of Businesses and Investments

Verizon Dominicana C. por A., Telecomunicaciones de Puerto Rico, Inc., and Compañía Anónima Nacional Teléfonos de Venezuela

During the second quarter of 2006, we reached definitive agreements to sell our interests in our Caribbean and Latin American telecommunications operations in three separate transactions to América Móvil, S.A. de C.V. (América Móvil), a wireless service provider throughout Latin America, and a company owned jointly by Teléfonos de México, S.A. de C.V. (Telmex) and América Móvil. We agreed to

sell our 100 percent indirect interest in Verizon Dominicana and our 52 percent interest in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) to América Móvil. An entity jointly owned by América Móvil and Telmex agreed to purchase our indirect 28.5 percent interest in CANTV.

In accordance with SFAS No. 144 we have classified the results of operations of Verizon Dominicana and TELPRI as discontinued operations. CANTV continues to be accounted for as an equity method investment.

On December 1, 2006, we closed the sale of Verizon Dominicana. The transaction resulted in net pretax cash proceeds of \$2,042 million, net of a purchase price adjustment of \$373 million. The U.S. taxes that became payable

and were recognized at the time the transaction closed exceeded the \$30 million pretax gain resulting in an after-tax loss of \$541 million (or \$.18 per diluted share).

We expect to close the sale of our interest in TELPRI in 2007 subject to the receipt of regulatory approvals and in accordance with the terms of the definitive agreement. We expect that the sale will result in approximately \$900 million in net pretax cash proceeds.

During the second quarter of 2006, we entered into a definitive agreement to sell our indirect 28.5% interest in CANTV to an entity jointly owned by América Móvil and Telmex for estimated pretax proceeds of \$677 million. Regulatory authorities in Venezuela never commenced the formal review of that transaction and the related tender offers for the remaining equity securities of CANTV. On February 8, 2007, after two prior extensions, the parties terminated the stock purchase agreement because the parties mutually concluded that the regulatory approvals would not be granted by the Government.

In January 2007, the Bolivarian Republic of Venezuela (the Republic) declared its intent to nationalize certain companies, including CANTV. On February 12, 2007, we entered into a Memorandum of Understanding (MOU) with the Republic. The MOU provides that the Republic will offer to purchase all of the equity securities of CANTV through public tender offers in Venezuela and the United States at a price equivalent to \$17.85 per ADS. If the tender offers are completed, the aggregate purchase price for Verizon's shares would be \$572 million. If the 2007 dividend that has been recommended by the CANTV Board is approved by shareholders and paid prior to the closing of the tender offers, this amount will be reduced by the amount of the dividend. Verizon has agreed to tender its shares if the offers are commenced. The Republic has agreed to commence the offers within forty-five days assuming the satisfactory completion of its due diligence investigation of CANTV. The tender offers are subject to certain conditions including that a majority of the outstanding shares are tendered to the Government and receipt of regulatory approvals. Based upon the terms of the MOU and our current investment balance in CANTV, we expect that we will record a loss on our investment in the first quarter of 2007. The ultimate amount of the loss depends on a variety of factors, including the successful completion of the tender offer and the satisfaction of other terms in the MOU.

Spin-off of Idearc

On November 17, 2006 we completed the spin-off of Idearc to shareowners of Verizon. Verizon distributed a dividend of one share of Idearc common stock for every 20 shares of Verizon common stock. Cash was paid for fractional shares. The distribution of Idearc common stock is considered a tax free transaction for us and for our shareowners, except for the cash payments for fractional shares which are generally taxable. Idearc now owns what was the Verizon domestic print and Internet yellow pages directories publishing operations, which had been the principal component of our Information Services segment. This transaction resulted in an increase of nearly \$9 billion in shareowners' equity, as well as a reduction of total debt by more than \$7 billion and we received approximately \$2 billion in cash.

Telephone Access Lines Spin-off

On January 16, 2007, we announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) that will result in Verizon establishing a separate entity for its local exchange and related business assets in Maine, New Hampshire and Vermont, spinning off that new entity to Verizon shareowners, and immediately merging it with and into FairPoint.

Upon the closing of the transaction, Verizon shareowners will own approximately 60 percent of the new company and FairPoint stockholders will own approximately 40 percent. Verizon Communications will not own any shares in FairPoint after the merger. In connection with the merger, Verizon shareowners will receive one share of FairPoint stock for approximately every 55 shares of Verizon stock held as of the record date. Both the spin-off and merger are expected to qualify as tax-free transactions, except to the extent that cash is paid to Verizon shareowners in lieu of fractional shares.

The total value to be received by Verizon and its shareowners in exchange for these operations will be approximately \$2,715 million. Verizon shareowners will receive approximately \$1,015 million of FairPoint common stock in the merger, based upon FairPoint's recent stock price and the terms of the merger agreement. Verizon will receive \$1,700 million in value through a combination of cash distributions to Verizon and debt securities issued to Verizon prior to the spin-off. Verizon may exchange these newly issued debt securities for certain debt that was previously issued by Verizon, which would have the effect of reducing Verizon's then-outstanding debt.

Redemption of Debt

Debt assumed from MCI merger

On January 17, 2006, Verizon announced offers to purchase two series of MCI senior notes, MCI \$1,983 million aggregate principal amount of 6.688% Senior Notes Due 2009 and MCI \$1,699 million aggregate principal amount of 7.735% Senior Notes Due 2014, at 101% of their par value. Due to the change in control of MCI that occurred in connection with the merger with Verizon on January 6, 2006, Verizon was required

to make this offer to noteholders within 30 days of the closing of the merger of MCI and Verizon. Separately, Verizon notified noteholders that MCI was exercising its right to redeem both series of Senior Notes prior to maturity under the optional redemption procedures provided in the indentures. The 6.688% Notes were redeemed on March 1, 2006, and the 7.735% Notes were redeemed on February 16, 2006.

In addition, on January 20, 2006, Verizon announced an offer to repurchase MCI \$1,983 million aggregate principal amount of 5.908% Senior Notes Due 2007 at 101% of their par value. On February 21, 2006, \$1,804 million of these notes were redeemed by Verizon. Verizon satisfied and discharged the indenture governing this series of notes shortly after the close of the offer for those noteholders who did not accept this offer.

Zero-Coupon Convertible Notes

Previously, Verizon Global Funding issued approximately \$5,442 million in principal amount at maturity of zero-coupon convertible notes due 2021 which were callable by Verizon on or after May 15, 2006. On May 15, 2006, we redeemed the remaining \$1,375 million accreted principal of the outstanding zero-coupon convertible notes at a redemption price of \$639.76 per \$1,000 principal plus interest of approximately \$0.5767 per \$1,000 principal. The total payment on the date of redemption was approximately \$1,377 million.

Other Debt Redemptions/Prepayments

Other debt redemptions/prepayments included approximately \$697 million of outstanding debt issuances at various rates associated with our operating telephone companies. Original maturity dates ranged from 2010 through 2026. On December 15, 2006, Verizon Wireless' six year 5.375% fixed rate note of \$2.5 billion matured. At December 31, 2006, Verizon Wireless had no third-party debt outstanding. On January 8, 2007, we redeemed the remaining \$1,580 million of the outstanding notes of the Verizon Communications Inc. floating rate notes due 2007. The gain/(loss) on these redemptions and prepayments were immaterial.

Issuance of Debt

In February 2006, Verizon issued \$4,000 million of floating rate and fixed rate notes maturing from 2007 through 2035.

Spectrum Purchases

On November 29, 2006, we were granted thirteen 20 MHz licenses we won in an FCC auction of Advanced

Wireless Services spectrum that concluded on September 18, 2006, for which we had bid a total of \$2,809 million. These licenses, which we anticipate using for the provision of advanced wireless broadband services, cover a population of nearly 200 million. We have made all required payments to the FCC for these licenses.

Environmental Matters

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments may also be made based upon actual conditions discovered during the remediation at any of the sites requiring remediation.

New York Recovery Funding

In August 2002, President Bush signed the Supplemental Appropriations bill that included \$5.5 billion in New York recovery funding. Of that amount, approximately \$750 million has been allocated to cover utility restoration and infrastructure rebuilding as a result of the September 11th terrorist attacks on lower Manhattan. These funds will be distributed through the Lower Manhattan Development Corporation following an application and audit process. As of September 2004, we had applied for reimbursement of approximately \$266 million under Category One, although we did not record this amount as a receivable. We received advances totaling \$88 million in connection with this application process. On December 22, 2004, we applied for reimbursement of an additional \$136 million of Category Two losses, and on March 29, 2005 we amended our application seeking an additional \$3 million. Category Two funding is for permanent restoration and infrastructure improvement. According to the plan, permanent restoration is reimbursed up to 75% of the loss. On November 3, 2005, we received the results of preliminary audit findings disallowing all but \$44 million of our \$266 million of Category One application. On December 8, 2005, we provided a detailed rebuttal to the preliminary audit findings. We received a copy of the final audit report for Verizon's Category One applications and, on January 4, 2007, we filed an appeal of the final audit report. That appeal, as well as our Category Two applications, are pending.

Regulatory and Competitive Trends

Competition and Regulation

Technological, regulatory and market changes have provided Verizon both new opportunities and challenges. These changes have allowed Verizon to offer new types of services in this increasingly competitive market. At the same time, they have allowed other service providers to broaden the scope of their own competitive offerings. Current and potential competitors for network services include other telephone companies, cable companies, wireless service providers, foreign telecommunications providers, satellite providers, electric utilities, Internet Service Providers, providers of VoIP services, and other companies that offer network services using a variety of technologies. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth. Many of our competitors also remain subject to fewer regulatory constraints than Verizon.

We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new

opportunities.

FCC Regulation

Our services are subject to the jurisdiction of the FCC with respect to interstate telecommunications services and other matters for which the FCC has jurisdiction under the Communications Act of 1934, as amended (Communications Act). The Communications Act generally obligates us not to charge unjust or unreasonable rates nor engage in unreasonable discrimination when we are providing services as a common carrier, and regulates some of the rates, terms and conditions under which we provide certain services. The FCC also has adopted regulations governing various aspects of our business, such as the following: (i) use and disclosure of customer proprietary network information; (ii) telemarketing; (iii) assignment of telephone numbers to customers; (iv) provision to law enforcement agencies of the capability to obtain call identifying information and call content information from calls pursuant to lawful process; (v) accessibility of services and equipment to individuals with disabilities if readily achievable; (vi) interconnection with the networks of other carriers; and (vii) customers' ability to keep (or "port") their telephone numbers when switching to another carrier. In addition, we pay various fees to support other FCC programs, such as the universal service program discussed below. Changes to these mandates, or the adoption of additional mandates, could require us to make changes to our operations or otherwise increase our costs of compliance.

Broadband

The FCC has adopted a series of orders that recognize the competitive nature of the broadband market, and impose lesser regulatory requirements on broadband services and facilities than apply to narrowband. With respect to facilities, the FCC has determined that certain unbundling requirements that apply to narrowband facilities do not apply to broadband facilities such as fiber to the premise loops and packet switches. With respect to services, the FCC has concluded that broadband Internet access services offered by telephone companies and their affiliates qualify as largely deregulated information services. The same order also concluded that telephone companies may offer the underlying broadband transmission services that are used as an input to Internet access services through private carriage arrangements on negotiated commercial terms. In addition, a Verizon petition asking the FCC to forbear from applying common carrier regulation to certain broadband services sold primarily to larger business customers when those services are not used for Internet access was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. Both the FCC's order addressing the appropriate regulatory treatment of broadband Internet access services and the relief obtained through the forbearance petition are the subject of pending appeals.

Video

The FCC has a body of rules that apply to cable operators under Title VI of the Communications Act, and these rules also generally apply to telephone companies that provide cable services over their networks. In addition, companies that provide cable service over a cable system generally must obtain a local cable franchise. On December 21, 2006, the FCC announced the adoption of rules under Section 621 of the Communications Act to set parameters consistent with federal law, on the timing and scope of franchise negotiations by local franchising authorities.

Interstate Access Charges and Intercarrier Compensation

The current framework for interstate access rates was established in the Coalition for Affordable Local and Long Distance Services (CALLS) plan, which the FCC adopted on May 31, 2000. The CALLS plan has three main components. First, it establishes portable interstate access universal service support of \$650 million for the industry that replaces implicit support previously embedded in interstate access charges. Second, the plan simplifies the patchwork of common line charges into one subscriber line charge (SLC) and provides for de-averaging of the SLC by zones and class of customers. Third, the plan set into place a mechanism to transition to a set target of \$.0055 per minute for switched access services. Once that target rate is reached, local exchange carriers are no longer required to make further annual price cap reductions to their switched access prices. As a result of tariff

adjustments which became effective in July 2003, virtually all of our switched access lines reached the \$.0055 benchmark.

The FCC currently is conducting a broad rulemaking proceeding to consider new rules governing intercarrier compensation including, but not limited to, access charges, compensation for Internet traffic, and reciprocal compensation for local traffic. The FCC has sought comments about intercarrier compensation in general, and has requested input on several specific reform proposals.

The FCC also has pending before it issues relating to intercarrier compensation for dial-up Internet-bound traffic. The FCC previously found that this traffic is not subject to reciprocal compensation under Section 251(b)(5) of the Telecommunications Act of 1996. Instead, the FCC established federal rates per minute for this traffic that declined from \$.0015 to \$.0007 over a three-year period, established caps on the total minutes of this traffic subject to compensation in a state, and required incumbent local exchange carriers to offer to both bill and pay reciprocal compensation for local traffic at the same rate as they are required to pay on Internet-bound traffic. The U.S. Court of Appeals for the D.C. Circuit rejected part of the FCC's rationale, but declined to vacate the order while it is on remand. As a result, pending further action by the FCC, the FCC's underlying order remains in effect. The FCC subsequently denied a petition to discontinue the \$.0007 rate cap on this traffic, but removed the caps on the total minutes of Internet-bound traffic subject to compensation. That decision has been upheld on appeal. Disputes also remain pending in a number of forums relating to the appropriate compensation for Internet-bound traffic during previous periods under the terms of our interconnection agreements with other carriers.

The FCC also is conducting a rulemaking proceeding to address the regulation of services that use Internet protocol, including whether access charges should apply to voice or other Internet protocol services. The FCC also considered several petitions asking whether, and under what circumstances, services that employ Internet protocol are subject to access charges. The FCC previously has held that one provider's peer-to-peer Internet protocol service that does not use the public switched network is an interstate information service and is not subject to access charges, while a service that utilizes Internet protocol for only one intermediate part of a call's transmission is a telecommunications service that is subject to access charges. Another petition asking the FCC to forbear from applying access charges to voice over Internet protocol services that are terminated on switched local exchange networks was withdrawn by the carrier that filed that petition. The FCC also declared the services offered by one provider of a voice over Internet protocol service to be jurisdictionally interstate on the grounds that it was impossible to separate that carrier's Internet protocol service into interstate and intrastate components. The FCC also stated that its conclusion would apply to other services with similar characteristics. That order has been appealed.

The FCC also has adopted rules for special access services that provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met. More than half of special access revenues are now removed from price regulation. The FCC currently has a rulemaking proceeding underway to evaluate experience under its pricing flexibility rules, and to determine whether any changes to those rules are warranted.

Universal Service

The FCC also has a body of rules implementing the universal service provisions of the Telecommunications Act of 1996, including rules governing support to rural and non-rural high-cost areas, support for low income subscribers, and support for schools, libraries and rural health care. The FCC's current rules for support to high-cost areas served by larger "non-rural" local telephone companies were previously remanded by U.S. Court of Appeals for the Tenth Circuit, which had found that the FCC had not adequately justified these rules. The FCC has initiated a rulemaking proceeding in response to the court's remand, but its rules remain in effect pending the results of the rulemaking. The FCC also has proceedings underway to evaluate possible changes to its current rules for assessing contributions to the universal service fund. As an interim step, in June 2006, the FCC ordered that providers of VoIP services are subject to federal universal service obligations. The FCC also increased the percentage of revenues subject to federal universal service obligations that wireless providers may use as a safe harbor. These decisions are the subject of a pending appeal. Any further change in the current assessment mechanism could

result in a change in the contribution that local telephone companies, wireless carriers or others must make and that would have to be collected from customers.

Unbundling of Network Elements

Under Section 251 of the Telecommunications Act of 1996, incumbent local exchange carriers were required to provide competing carriers with access to components of their network on an unbundled basis, known as UNEs, where certain statutory standards are satisfied. The Telecommunications Act of 1996 also adopted a cost-based pricing standard for these UNEs, which the FCC interpreted as allowing it to impose a pricing standard known as “total element long run incremental cost” or “TELRIC.” The FCC’s rules defining the unbundled network elements that must be made available at TELRIC prices have been overturned on multiple occasions by the courts. In its most recent order issued in response to these court decisions, the FCC eliminated the requirement to unbundle mass market local switching on a nationwide basis, with the obligation to accept new orders ending as of the effective date of the order (March 11, 2005). The FCC also established a one year transition for existing UNE switching arrangements. For high capacity transmission facilities, the FCC established criteria for determining whether high capacity loops, transport or dark fiber transport must be unbundled in individual wire centers, and stated that these standards were only expected to affect a small number of wire centers. The FCC also eliminated the obligation to provide dark fiber loops and found that there is no obligation to provide UNEs exclusively for wireless or long distance service. In any instance where a particular high capacity facility no longer has to be made available as a UNE, the FCC established a similar one year transition for any existing high capacity loop or transport UNEs, and an 18 month transition for any existing dark fiber UNEs. This decision has been upheld on appeal.

As noted above, the FCC has concluded that the requirement under Section 251 of the Telecommunications Act of 1996 to provide unbundled network elements at TELRIC prices generally does not apply with respect to broadband facilities, such as fiber to the premises loops, the packet-switched capabilities of hybrid loops and packet switching. The FCC also has held that any separate unbundling obligations that may be imposed by Section 271 of the Telecommunications Act of 1996 do not apply to these same facilities. The decision with respect to Section 271 has been upheld on appeal and a petition for rehearing of that appellate order was denied.

Wireless Services

The FCC regulates the licensing, construction, operation, acquisition and transfer of wireless communications systems, including the systems that Verizon Wireless operates, pursuant to the Communications Act, other legislation, and the FCC’s rules. The FCC and Congress continuously consider changes to these laws and rules. Adoption of new laws or rules may raise the cost of providing service or require modification of Verizon Wireless’s business plans or operations.

To use the radio frequency spectrum, wireless communications systems must be licensed by the FCC to operate the wireless network and mobile devices in assigned spectrum segments. Verizon Wireless holds FCC licenses to operate in several different radio services, including the cellular radiotelephone service, personal communications service, advanced wireless service, and point-to-point radio service. The technical and service rules, the specific radio frequencies and amounts of spectrum we hold, and the sizes of the geographic areas we are authorized to operate in, vary for each of these services. However, all of the licenses Verizon Wireless holds allow it to use spectrum to provide a wide range of mobile and fixed communications services, including both voice and data services, and Verizon Wireless operates a seamless network that utilizes those licenses to provide services to customers. Because the FCC issues licenses for only a fixed time, generally 10 years, Verizon Wireless must periodically seek renewal of those licenses. Although the FCC has routinely renewed all of Verizon Wireless’s licenses that have come up for renewal to date, challenges could be brought against the licenses in the future. If a wireless license were revoked or not renewed upon expiration, Verizon Wireless would not be permitted to provide services on the licensed spectrum in the area covered by that license.

The FCC has also imposed specific mandates on carriers that operate wireless communications systems, which

increase Verizon Wireless's costs. These mandates include requirements that Verizon Wireless: (i) meet specific construction and geographic coverage requirements during the license term; (ii) meet technical operating standards that, among other things, limit the radio frequency radiation from mobile devices and antennas; (iii) deploy "Enhanced 911" wireless services that provide the wireless caller's number, location and other information upon request by a state or local public safety agency that handles 911 calls; and (iv) comply with regulations for the construction of transmitters and towers that, among other things, restrict siting of towers in environmentally sensitive locations and in places where the towers would affect a site listed or eligible for listing on the National Register of Historic Places. Changes to these mandates could require Verizon Wireless to make changes to operations or increase its costs of compliance.

The Communications Act imposes restrictions on foreign ownership of U.S. wireless systems. The FCC has approved the interest that Vodafone Group Plc holds, through various of its subsidiaries, in Verizon Wireless. The FCC may need to approve any increase in Vodafone's interest or the acquisition of an ownership interest by other foreign entities. In addition, as part of the FCC's approval of Vodafone's ownership interest, Verizon Wireless, Verizon and Vodafone entered into an agreement with the U.S. Department of Defense, Department of Justice and Federal Bureau of Investigation which imposes national security and law enforcement-related obligations on the ways in which Verizon Wireless stores information and otherwise conducts its business.

Verizon Wireless anticipates that it will need additional spectrum to meet future demand. It can meet spectrum needs by purchasing licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the FCC. Under the Communications Act, before Verizon Wireless can acquire a license from another licensee in order to expand its coverage or its spectrum capacity in a particular area, it must file an application with the FCC, and the FCC can grant the application only after a period for public notice and comment. This review process can delay acquisition of spectrum needed to expand services. The Communications Act also requires the FCC to award new licenses for most commercial wireless services through a competitive bidding process in which spectrum is awarded to bidders in an auction. Verizon Wireless has participated in spectrum auctions to acquire licenses in the personal communication service and most recently the advanced wireless service. However, the timing of future auctions, and the spectrum being sold, may not match Verizon Wireless's needs, and the company may not be able to secure the spectrum in the auction.

The FCC is also conducting several proceedings to explore whether and how to use spectrum more intensively by, for example, allowing unlicensed wireless devices to operate in licensed spectrum bands. These proceedings could increase radio interference to Verizon Wireless's operations from other spectrum users, or allow other users to share its spectrum. These changes may adversely impact the ways in which it uses spectrum, the capacity of that spectrum to carry traffic, and the value of that spectrum.

State Regulation and Local Approvals

Telephone Operations

State public utility commissions regulate our telephone operations with respect to certain telecommunications intrastate rates and services and other matters. Our competitive local exchange carrier and long distance operations are generally classified as nondominant and lightly regulated the same as other similarly situated carriers. Our incumbent local exchange operations are generally classified as dominant. These latter operations predominantly are subject to alternative forms of regulation (AFORs) in the various states, although they remain subject to rate of return regulation in a few states. Arizona, Illinois, Nevada, New Hampshire, Oregon and Washington are rate of return regulated with various levels of pricing flexibility for competitive services. California, Connecticut, Delaware, the District of Columbia, Florida, Indiana, Maryland, Michigan, Maine, Massachusetts, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, West Virginia and Wisconsin are under AFORs with various levels of pricing flexibility, detariffing, and service quality standards. None of the AFORs include earnings regulation. In Idaho, Verizon has made the election under a recent statutory amendment into a deregulatory regime that phases out all price regulation.

Video

Companies that provide cable service over a cable system are typically subject to state and/or local cable television rules and regulations. As noted above, cable operators generally must obtain a local cable franchise from each local unit of government prior to providing cable service in that local area. Some states have recently enacted legislation that enables cable operators to apply for, and obtain, a single cable franchise at the state, rather than local, level. To date, Verizon has applied for and received state-issued franchises in Indiana, New Jersey and Texas. California has enacted statewide franchise reform legislation, but has not yet finalized implementing rules.

Wireless Services

The rapid growth of the wireless industry has led to an increase in efforts by some state legislatures and state public utility commissions to regulate the industry in ways that may impose additional costs on Verizon Wireless. The Communications Act generally preempts regulation by state and local governments of the entry of, or the rates charged by, wireless carriers. Although a state may petition the FCC to allow it to impose rate regulation, no state has done so. In addition, the Communications Act does not prohibit the states from regulating the other “terms and conditions” of wireless service. While numerous state commissions do not currently have jurisdiction over wireless services, state legislatures may decide to grant them such jurisdiction, and those commissions that already have authority to impose regulations on wireless carriers may adopt new rules.

State efforts to regulate wireless services have included proposals to regulate customer billing, termination of service, trial periods for service, advertising, network outages, the use of handsets while driving, and the provision of emergency or alert services. Over the past several years, only a few states have imposed regulation in one or more of these areas, and in 2006 a federal appellate court struck down one such state statute, but Verizon Wireless expects these efforts to continue. Some states also impose their own universal service support regimes on wireless and other telecommunications carriers, and other states are considering whether to create such regimes.

Verizon Wireless (as well as AT&T (formerly Cingular) and Sprint-Nextel) is a party to an Assurance of Voluntary Compliance (“AVC”) with 33 State Attorneys General. The AVC, which generally reflected Verizon Wireless’s practices at the time it was entered into in July 2004, obligates the company to disclose certain rates and terms during a sales transaction, to provide maps depicting coverage, and to comply with various requirements regarding advertising, billing, and other practices.

At the state and local level, wireless facilities are subject to zoning and land use regulation. Under the Communications Act, neither state nor local governments may categorically prohibit the construction of wireless facilities in any community or take actions, such as indefinite moratoria, which have the effect of prohibiting service. Nonetheless, securing state and local government approvals for new tower sites has been and is likely to continue to be a difficult, lengthy and expensive process. Finally, state and local governments continue to impose new or higher fees and taxes on wireless carriers.

Cautionary Statement Concerning Forward-Looking Statements

In this Annual Report on Form 10-K we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words “anticipates,” “believes,” “estimates,” “hopes” or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this Annual Report, could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

• materially adverse changes in economic and industry conditions and labor matters, including workforce levels and labor negotiations, and any resulting financial and/or operational impact, in the markets served by us or by companies in which we have substantial investments;

• material changes in available technology, including disruption of our suppliers' provisioning of critical products or services;

• technology substitution;

• an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations;

• the final results of federal and state regulatory proceedings concerning our provision of retail and wholesale services and judicial review of those results;

• the effects of competition in our markets;

• the timing, scope and financial impacts of our deployment of fiber-to-the-premises broadband technology;

• the ability of Verizon Wireless to continue to obtain sufficient spectrum resources;

• changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings;

• the timing of the sales of our Latin American and Caribbean properties; and

• the extent and timing of our ability to obtain revenue enhancements and cost savings following our business combination with MCI, Inc.

Report of Management on Internal Control Over Financial Reporting

We, the management of Verizon Communications Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the company. Management has evaluated internal control over financial reporting of the company using the criteria for effective internal control established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2006. Based on this assessment, we believe that the internal control over financial reporting of the company is effective as of December 31, 2006. In connection with this assessment, there were no material weaknesses in the company's internal control over financial reporting identified by management.

The company's financial statements included in this annual report have been audited by Ernst & Young LLP, independent registered public accounting firm. Ernst & Young LLP has also issued an attestation report on management's assessment of the company's internal control over financial reporting.

/s/ Ivan G. Seidenberg

Ivan G. Seidenberg
Chairman and Chief Executive Officer

/s/ Doreen A. Toben

Doreen A. Toben
Executive Vice President and Chief Financial Officer

/s/ Thomas A. Bartlett

Thomas A. Bartlett
Senior Vice President and Controller

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To The Board of Directors and Shareowners of Verizon Communications Inc.:

We have audited management's assessment, included in the accompanying Report of Management on Internal Control Over Financial Reporting, that Verizon Communications Inc. and subsidiaries (Verizon) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Verizon's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made

only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Verizon maintained effective internal control over financial reporting, as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Verizon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Verizon as of December 31, 2006 and 2005, and the related consolidated statements of income, cash flows and changes in shareowners' investment for each of the three years in the period ended December 31, 2006 of Verizon and our report dated February 23, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP	
	Ernst & Young LLP
	New York, New York
	February 23, 2007

Report of Independent Registered Public Accounting Firm on Financial Statements

To The Board of Directors and Shareowners of Verizon Communications Inc.:

We have audited the accompanying consolidated balance sheets of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2006 and 2005, and the related consolidated statements of income, cash flows and changes in shareowners' investment for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Verizon at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S.

13,503

Sales of businesses, net	-	(530)			
)	-			
Total Operating Expenses	74,771	56,937			
		54,881			
Operating Income	13,373	12,581			
		10,870			
Equity in earnings of unconsolidated businesses	773	686			
		1,690			
Other income and (expense), net	395	311			
		82			
Interest expense	(2,349)	(2,129)			
	)	(2,336)			
Minority interest	(4,038)	(3,001)			
	)	(2,329)			
Income Before Provision for Income Taxes, Discontinued Operations and Cumulative Effect of Accounting Change	8,154	8,448			
		7,977			
Provision for income taxes	(2,674)	(2,421)			
	)	(2,078)			
Income Before Discontinued Operations and Cumulative Effect of Accounting Change		5,480			
		6,027			
	5,899				
Income on discontinued operations, net of tax	759	1,370			
		1,932			
Cumulative effect of accounting change, net of tax	(42)	-			
		-			
Net Income	\$ 6,197	\$ 7,397			
		\$ 7,831			
Basic Earnings Per Common Share ^(a)					
Income before discontinued operations and cumulative effect of accounting change		\$ 1.88			
		\$ 2.18			
	\$ 2.13				

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Income on discontinued operations, net of tax	.26	.50		
	.70			
Cumulative effect of accounting change, net of tax	(.01)	-		
	-			
Net Income	\$ 2.13	\$ 2.67		
		\$ 2.83		
Weighted-average shares outstanding (in millions)	2,912	2,766		
		2,770		
Diluted Earnings Per Common Share ⁽¹⁾				
Income before discontinued operations and cumulative effect of accounting change		\$ 1.88		
		\$ 2.16		
	\$ 2.11			
Income on discontinued operations, net of tax	.26	.49		
	.68			
Cumulative effect of accounting change, net of tax	(.01)	-		
	-			
Net Income	\$ 2.12	\$ 2.65		
		\$ 2.79		
Weighted-average shares outstanding (in millions)	2,938	2,817		
		2,831		

(1) Total per share amounts may not add due to rounding.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts)

At December 31,

2006

2005

Assets

Current assets

Cash and cash equivalents	\$ 3,219		
	\$ 760		
Short-term investments	2,434		
	2,146		
Accounts receivable, net of allowances of \$1,139 and \$1,100	10,891		
	8,534		
Inventories	1,514		
	1,522		
Assets held for sale	2,592		
	4,233		
Prepaid expenses and other	1,888		
	2,125		
Total current assets	22,538		
	19,320		
Plant, property and equipment	204,109		
	187,761		
Less accumulated depreciation	121,753		
	114,774		
	82,356		
	72,987		
Investments in unconsolidated businesses	4,868		

	4,602			
Wireless licenses	50,959			
	47,781			
Goodwill	5,655			
	315			
Other intangible assets, net	5,140			
	4,068			
Other assets	17,288			
	19,057			
Total assets	\$ 188,804			
	\$ 168,130			
Liabilities and Shareowners' Investment				
Current liabilities				
Debt maturing within one year	\$ 7,715			
	\$ 6,688			
Accounts payable and accrued liabilities	14,320			
	11,747			
Liabilities related to assets held for sale	2,154			
	2,870			
Other	8,091			
	5,395			

Total current liabilities	32,280			
	26,700			
Long-term debt	28,646			
	31,569			
Employee benefit obligations	30,779			
	17,693			
Deferred income taxes	16,270			
	22,831			
Other liabilities	3,957			
	3,224			
Minority interest	28,337			
	26,433			
Shareowners' investment				
Series preferred stock (\$.10 par value; none issued)	-			
	-			
Common stock (\$.10 par value; 2,967,652,438 shares and 2,774,865,381 shares issued)	297			
	277			
Contributed capital	40,124			
	25,369			
Reinvested earnings	17,324			
	15,905			

Accumulated other comprehensive loss	(7,530)			
)			
	(1,783)			
)			
Common stock in treasury, at cost	(1,871)			
)			
	(353)			
)			
Deferred compensation-employee stock ownership plans and other	191			
	265			
Total shareowners' investment	48,535			
	39,680			
Total liabilities and shareowners' investment	\$ 188,804			
	\$ 168,130			

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows Verizon Communications Inc. and Subsidiaries

	2006	2005	2004
(dollars in millions)			
Years Ended December 31,			
Cash Flows from Operating Activities			
Net Income	\$ 6,197	\$ 7,831	
7,397			
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	14,545	13,615	13,503
Sales of businesses, net	-	(530)	
(Gain) loss on sale of discontinued operations	541	-	

		-		
Employee retirement benefits	1,923		1,695	
			1,836	
Deferred income taxes	(252)	)	(1,093)	
		)	1,721	
Provision for uncollectible accounts	1,034		1,076	
			890	
Equity in earnings of unconsolidated businesses	(773)	)	(686)	
		)	(1,690)	
)		
Cumulative effect of accounting change, net of tax	42		-	
			-	
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses:				
Accounts receivable	(1,312)	)	(788)	
		)	(1,293)	
)		
Inventories	8		(236)	
		)	(226)	
)		
Other assets	52		(176)	
		)	539	
Accounts payable and accrued liabilities	(383)	)	(899)	
		)	(1,820)	
)		
Other, net	1,408		1,069	
			(1,115)	
)		
Net cash provided by operating activities - continuing operations	23,030		20,444	
			20,176	
Net cash provided by operating activities - discontinued operations	1,076		1,581	
			1,615	
Net cash provided by operating activities	24,106		22,025	
			21,791	
Cash Flows from Investing Activities				

Capital expenditures (including capitalized software)	(17,101)	)	(14,964		
	)		(12,794		
)				
Acquisitions, net of cash acquired, and investments	(1,422)	)	(4,684		
	)		(1,196		
)				
Proceeds from disposition of businesses	-	)	1,326		
			117		
Net change in short-term and other current investments	290	)	(346		
	)		(90)		
Other, net	811	)	532		
			2,474		
Net cash used in investing activities - continuing operations	(17,422)	)	(18,136		
	)		(11,489		
)				
Net cash provided by (used in) investing activities - discontinued operations	1,806	)	(356		
	)		1,146		
Net cash used in investing activities	(15,616)	)	(18,492		
	)		(10,343		
)				
Cash Flows from Financing Activities					
Proceeds from long-term borrowings	3,983	)	1,487		
			514		
Repayments of long-term borrowings and capital lease obligations	(11,233)	)	(3,825		
	)		(5,168		
)				
Increase (decrease) in short-term obligations, excluding current maturities	7,944	)	2,098		
			(747		
)				
Dividends paid	(4,719)	)	(4,427		
	)		(4,262		
)				
Proceeds from sale of common stock	174	)	37		
			320		
Purchase of common stock for treasury	(1,700)	)	(271		

	)	(370)		
)			
Other, net	(201)	(57)		
	)	(125)		
)			
Net cash used in financing activities - continuing operations	(5,752)	(4,958)		
	)	(9,838)		
)			
Net cash used in financing activities - discontinued operations	(279)	(76)		
	)	(18)		
)			
Net cash used in financing activities	(6,031)	(5,034)		
	)	(9,856)		
)			
Increase (decrease) in cash and cash equivalents	2,459	(1,501)		
	)	1,592		
)			
Cash and cash equivalents, beginning of year	760	2,261		
		669		
Cash and cash equivalents, end of year	\$ 3,219	\$		
760		\$ 2,261		

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareowners' Investment Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts, and shares in thousands)						
Years Ended December 31,	2006		2005		2004	
	Shares	Amount	Shares	Amount	Shares	Amount
Amount						
Common Stock						
Balance at beginning of year	2,774,865	\$ 277	2,774,865	\$ 277		
	2,772,314	\$ 277				
Shares issued						
Employee plans	-	-	-	-	2,501	
Shareowner plans	-	-	-	-	50	

		-				
Shares issued MCI/Price acquisitions	192,787	20	-	-	-	
		-				
Balance at end of year	2,967,652	297	2,774,865	277		
	2,774,865	277				
Contributed Capital						
Balance at beginning of year		25,369		25,404		
		25,363				
Shares issued-employee and shareowner plans			-		(24	
)			2			
Shares issued-MCI/Price acquisitions		6,009		-		
		-				
Net tax benefit from employee stock compensation			(2)	-	
			41			
Idearc Inc. spin-off		8,695		-		
		-				
Other		53		(11)	
		(2)			
Balance at end of year		40,124		25,369		
		25,404				
Reinvested Earnings						
Balance at beginning of year		15,905		12,984		
		9,409				
Net income		6,197		7,397		
		7,831				
Dividends declared (\$1.62, \$1.62 and \$1.54 per share)			(4,781)		
	(4,479	)	(4,265)		
Other		3		3		
		9				
Balance at end of year		17,324		15,905		
		12,984				
Accumulated Other Comprehensive Loss						
Balance at beginning of year		(1,783	)	(1,053)	
		(1,250)			
Foreign currency translation adjustment			1,196		(755	
)			548			

Unrealized gains on net investment hedges			-			2		
			-					
Unrealized gains (losses) on marketable securities			54			(21		
)			7					
Unrealized gains on cash flow hedges			14			10		
			17					
Minimum pension liability adjustment			788			51		
			(332)		
Adoption of SFAS No. 158			(7,671			-		
			-					
Other			(128	)		(17)	
			(43)				
Other comprehensive income (loss)			(5,747	)		(730)	
			197					
Balance at end of year			(7,530	)		(1,783)	
			(1,053)				
Treasury Stock								
Balance at beginning of year	(11,456	)	(353	)	(5,213	)	(142)
	(4,554	)	(115)				
Shares purchased	(50,066	)	(1,700	)	(7,859	)	(271)
	(9,540	)	(370)				
Shares distributed								
Employee plans	5,355		181		1,594		59	
			343					
Shareowner plans	20		1		22		1	
			-					
Balance at end of year	(56,147	)	(1,871	)	(11,456	)	(353)
	(5,213	)	(142)				
Deferred Compensation - ESOPs and Other								
Balance at beginning of year			265				90	
			(218)				
Amortization			(74	)			174	
			301					
Other			-				1	
			7					
Balance at end of year			191				265	
			90					
Total Shareowners' Investment			\$ 48,535				\$ 39,680	

			\$ 37,560				
Comprehensive Income							
Net income			\$6,197			\$7,397	
			\$7,831				
Other comprehensive income (loss) per above					(5,747	)	(730
					197		
Total Comprehensive Income (Loss)			\$ 450			\$ 6,667	
			\$ 8,028				

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements Verizon Communications Inc. and Subsidiaries

Note 1

Description of Business and Summary of Significant Accounting Policies

Description of Business

Verizon Communications Inc. (Verizon) is one of the world's leading providers of communications services. Our wireline business provides telephone services, including voice, broadband video and data, network access, nationwide long-distance and other communications products and services, and also owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks. We continue to deploy advanced broadband network technology, with our fiber-to-the-premises network (FiOS) creating a platform with sufficient bandwidth and capabilities to meet customers' current and future needs. FiOS allows Verizon to offer our customers a wide array of broadband services including advanced data and television offerings. Our IP network includes over 446,000 route miles of fiber optic cable and provides access to over 150 countries across six continents, enabling us to provide next-generation IP network products and Information Technology (IT) services to medium and large businesses and government customers worldwide.

Verizon's domestic wireless business, operating as Verizon Wireless, provides wireless voice and data products and other value added services and equipment across the United States using one of the most extensive wireless networks. Verizon Wireless continues to expand our wireless data, messaging and multi-media offerings for both consumer and business customers. NationalAccess is our national wireless Internet service that offers customers access to the internet, email and business applications with a laptop computer. VCAST is a consumer wireless broadband multimedia service that brings high-quality video, 3D games and music to a wide array of new phones.

We have two reportable segments, Wireline and Domestic Wireless, which we operate and manage as strategic business units and organize by products and services. For further information concerning our business segments, see Note 17.

Consolidation

The method of accounting applied to investments, whether consolidated, equity or cost, involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the

operations of the investee. The consolidated financial statements include our controlled subsidiaries. Investments in businesses which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method. Equity and cost method investments are included in Investments in Unconsolidated Businesses in our consolidated balance sheets. Certain of our cost method investments are classified as available-for-sale securities and adjusted to fair value pursuant to the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

All significant intercompany accounts and transactions have been eliminated.

We have reclassified prior year amounts to conform to the current year presentation.

Discontinued Operations, Assets Held for Sale, and Sales of Businesses and Investments

We classify as discontinued operations for all periods presented any component of our business that we hold for sale or dispose of that has operations and cash flows that are clearly distinguishable operationally and for financial reporting purposes from the rest of Verizon. For those components, Verizon has no significant continuing involvement after disposal and their operations and cash flows are eliminated from Verizon's ongoing operations. Sales of significant components of our business not classified as discontinued operations are reported as either Sales of Businesses, Net, Equity in Earnings of Unconsolidated Businesses or Other Income and (Expense), Net in our consolidated statements of income.

Use of Estimates

We prepare our financial statements using generally accepted accounting principles (GAAP), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of plant, property and equipment, intangible assets and other long-lived assets, valuation allowances on tax assets and pension and postretirement benefit assumptions.

Revenue Recognition

Wireline

Our Wireline segment earns revenue based upon usage of our network and facilities and contract fees. In general, fixed monthly fees for local telephone, long distance and certain other services are billed one month in advance and recognized the following month when earned. Revenue from services that are not fixed in amount and are based on usage are recognized when such services are provided.

We recognize equipment revenue for services, in which we bundle the equipment with maintenance and monitoring services, when the equipment is installed in accordance with contractual specifications and ready for the customer's use. The maintenance and monitoring services are recognized monthly over the term of the contract as we provide the services. Long-term contracts are accounted for using the percentage of completion method. We use the completed contract method if we cannot estimate the costs with a reasonable degree of reliability.

Customer activation fees, along with the related costs up to but not exceeding the activation fees, are deferred and amortized over the customer relationship period.

Domestic Wireless

Our Domestic Wireless segment earns revenue by providing access to and usage of our network, which includes roaming revenue. In general, access revenue is billed one month in advance and recognized when earned. Access revenue, usage revenue and roaming revenue are recognized when service is rendered. Equipment sales revenue associated with the sale of wireless handsets and accessories is recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Customer activation fees are considered additional consideration when handsets are sold to customers at a discount and are recorded as equipment sales revenue.

Maintenance and Repairs

We charge the cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, principally to Cost of Services and Sales as these costs are incurred.

Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of shares outstanding during the period. Diluted earnings per common share include the dilutive effect of shares issuable under our stock-based compensation plans, an exchangeable equity interest (see Note 9), and the zero-coupon convertible notes (see Note 11), which represent the only potentially dilutive common shares. As of December 31, 2006, the exchangeable equity interest and zero-coupon convertible notes are no longer outstanding.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents, except cash equivalents held as short-term investments. Cash equivalents are stated at cost, which approximates market value.

Short-Term Investments

Our short-term investments consist primarily of cash equivalents held in trust to pay for certain employee benefits. Short-term investments are stated at cost, which approximates market value.

Marketable Securities

We continually evaluate our investments in marketable securities for impairment due to declines in market value considered to be other than temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other than temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established. These investments are included in the accompanying consolidated balance sheets in Investments in Unconsolidated Businesses or Other Assets.

Inventories

We include in inventory new and reusable supplies and network equipment of our local telephone operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost (determined principally on either an average cost or first-in, first-out basis) or market.

Plant and Depreciation

We record plant, property and equipment at cost. Our local telephone operations' depreciation expense is

principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

The asset lives used by our Wireline operations are presented in the following table:

Average Lives (in years)	
Buildings	15 - 42
Central office equipment	5 - 11
Outside communications plant	
Copper cable	13 - 18
Fiber cable	11 - 20
Microwave towers	30
Poles and conduit	30 - 50
Furniture, vehicles and other	3 - 20

When we replace or retire depreciable plant used in our local telephone network, we deduct the carrying amount of such plant from the respective accounts and charge it to accumulated depreciation.

Plant, property and equipment of our other subsidiaries are generally depreciated on a straight-line basis over the following estimated useful lives: buildings, 8 to 40 years; plant equipment, 3 to 15 years; and other equipment, 3 to 5 years.

When the depreciable assets of our other subsidiaries are retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, and any gains or losses on disposition are recognized in income.

We capitalize network software purchased or developed along with related plant assets. We also capitalize interest associated with the acquisition or construction of network-related assets. Capitalized interest is reported as part of the cost of the network-related assets and as a reduction in interest expense.

In connection with our ongoing review of the estimated remaining useful lives of plant, property and equipment and associated depreciation rates, we determined that, effective January 1, 2005, the remaining useful lives of three categories of telephone assets would be shortened by 1 to 2 years. These changes in asset lives were based on Verizon's plans, and progress to date on those plans, to deploy fiber optic cable to homes, replacing copper cable. While the timing and extent of current deployment plans are subject to modification, Verizon management believes that current estimates of reductions in impacted asset lives is reasonable and subject to ongoing analysis as deployment of fiber optic lines continues. The asset categories impacted and useful life changes are as follows:

Average Lives (in years)		From	To
Central office equipment			
Digital switches	12		11
Circuit equipment		9	8 - 9
Outside plant			
Copper cable	15 - 19		13 - 18

In connection with our ongoing review noted above, we determined that, effective January 1, 2006, the remaining useful lives of circuit equipment would be shortened from 8-9 years to 8 years.

Computer Software Costs

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year in accordance with Statement of Position (SOP) No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of non-network internal-use software. Capitalized non-network internal-use software costs are amortized using the straight-line method over a period of 1 to 7 years and are included in Other Intangible Assets, Net in our consolidated balance sheets. For a discussion of our impairment policy for capitalized software costs under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, see "Goodwill and Other Intangibles" below. Also, see Note 7 for additional detail of non-network internal-use software reflected in our consolidated balance sheets.

Goodwill and Other Intangible Assets

Goodwill

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed annually, and more frequently if indications of impairment exist. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. We have determined that, in our case, the reporting units are our operating segments since that is the lowest level at which discrete, reliable financial and cash flow information is available. Step one compares the fair value of the reporting unit (calculated using a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment.

Intangible Assets Not Subject to Amortization

A significant portion of our intangible assets are Domestic Wireless licenses that provide our wireless operations with the exclusive right to utilize designated radio frequency spectrum to provide cellular communication services. While licenses are issued for only a fixed time, generally ten years, such licenses are subject to renewal by the Federal Communications Commission (FCC). Renewals of licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. As a result, we treat the wireless licenses as an indefinite-lived intangible asset under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). We reevaluate the useful life determination for wireless licenses each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

We test our Domestic Wireless licenses for impairment annually, and more frequently if indications of impairment exist. Beginning in 2005, we began using a direct value approach in performing our annual impairment test on our Domestic Wireless licenses. The direct value approach determines fair value using estimates of future cash flows associated specifically with the licenses. Previously, we used a residual method, which determined the fair value of the wireless licenses by subtracting from the fair value of the wireless business the fair value of all of the other net tangible and intangible (primarily recognized and unrecognized customer relationship intangible assets) assets of our wireless operations. We began using the direct value approach in 2005 in accordance with a September 29, 2004 Staff Announcement from the staff of the Securities and Exchange Commission (SEC), "Use of the Residual Method to Value Acquired Assets Other Than Goodwill." Under either the direct method or the residual method, if the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the licenses, an impairment is recognized.

Intangible Assets Subject to Amortization

Our intangible assets that do not have indefinite lives (primarily customer lists and non-network internal-use software) are amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indications were present, we would test for recoverability by comparing the carrying amount of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount (i.e., the asset is not recoverable), we would perform the next step which is to determine the fair value of the asset and record an impairment, if any. We reevaluate the useful life determination for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful life.

For information related to the carrying amount of goodwill by segment as well as the major components and average useful lives of our other acquired intangible assets, see Note 7.

Income Taxes

Verizon and its domestic subsidiaries file a consolidated federal income tax return.

Stock-Based Compensation

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment* utilizing the modified prospective method. SFAS No. 123(R) requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. Under the modified prospective method, the provisions of SFAS No. 123(R) apply to all awards granted or modified after the date of adoption. The impact to Verizon primarily resulted from Verizon Wireless, for which we recorded a \$42 million cumulative effect of accounting change as of January 1, 2006, net of taxes and after minority interest, to recognize the effect of initially measuring the outstanding liability for Value Appreciation Rights (VARs) granted to Domestic Wireless employees at fair value utilizing a Black-Scholes model. We have been expensing stock options since adopting SFAS No. 123, *Accounting for Stock-Based Compensation* effective January 1, 2003.

Foreign Currency Translation

The functional currency for all of our foreign operations is generally the local currency. For these foreign entities, we translate income statement amounts at average exchange rates for the period, and we translate assets and liabilities at end-of-period exchange rates. We record these translation adjustments in Accumulated Other Comprehensive Loss, a separate component of Shareowners' Investment, in our consolidated balance sheets. We report exchange gains and losses on intercompany foreign currency transactions of a long-term nature in Accumulated Other Comprehensive Loss. Other exchange gains and losses are reported in income.

Employee Benefit Plans

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

As of July 1, 2006, Verizon management employees no longer earn pension benefits or earn service towards the company retiree medical subsidy (See Note 15).

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158).

SFAS No. 158 requires the recognition of a defined benefit postretirement plan's funded status as either an asset or liability on the balance sheet. SFAS No. 158 also requires the immediate recognition of the unrecognized actuarial gains and losses and prior service costs and credits that arise during the period as a component of other accumulated comprehensive income, net of applicable income taxes. Additionally, the fair value of plan assets must be determined as of the company's year-end. We adopted SFAS No. 158 effective December 31, 2006, which resulted in a net decrease to shareowners' investment of \$6,883 million (see Note 15).

Derivative Instruments

We have entered into derivative transactions to manage our exposure to fluctuations in foreign currency exchange rates, interest rates and equity prices. We employ risk management strategies using a variety of derivatives including foreign currency forwards and collars, equity options, interest rate swap agreements and interest rate locks. We do not hold derivatives for trading purposes.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) and related amendments and interpretations, we measure all derivatives, including derivatives embedded in other financial instruments, at fair value and recognize them as either assets or liabilities on our consolidated balance sheets. Changes in the fair values of derivative instruments not qualifying as hedges or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income (loss) and recognized in earnings when the hedged item is recognized in earnings.

Other Recent Accounting Pronouncements

Uncertainty in Income Taxes

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. We are required to adopt FIN 48 effective January 1, 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings (or to goodwill, in certain cases for a prior acquisition) in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized upon adoption of FIN 48. We anticipate that as a result of the adoption of FIN 48, we will record an adjustment to our opening retained earnings. We are also reviewing the potential impact of FIN 48 on prior purchase accounting. Any such purchase accounting adjustment will not impact retained earnings or current earnings. We are reviewing the final impact of the adoption of FIN 48. We anticipate that any required adjustment under the adoption of FIN 48 will not be material.

Leveraged Leases

In July 2006, the FASB issued Staff Position No. FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" (FSP 13-2). FSP 13-2 requires that changes in the projected timing of income tax cash flows generated by a leveraged lease transaction be recognized as a gain or loss in the year in which change occurs. We are required to adopt FSP 13-2 effective January 1, 2007. The cumulative effect of initially adopting this FSP will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. We anticipate that any required adjustment under the adoption of FSP 13-2 will not be material.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles,

establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value and expands disclosures about fair value measurements. We are required to adopt SFAS No. 157 effective January 1, 2008 on a prospective basis. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

Note 2**Acquisitions**

Completion of Merger with MCI

On February 14, 2005, Verizon announced that it agreed to acquire 100% of the outstanding common stock of MCI, Inc. (MCI) for a combination of Verizon common shares and cash. MCI was a global communications company that provided Internet, data and voice communication services to businesses and government entities throughout the world and consumers in the United States. After receiving the required state, federal and international regulatory approvals, Verizon and MCI closed the merger on January 6, 2006.

On April 9, 2005, Verizon entered into a stock purchase agreement with eight entities affiliated with Carlos Slim Helú to purchase 43.4 million shares of MCI common stock for \$25.72 per share in cash plus an additional cash amount of 3% per annum from April 9, 2005, until the closing of the purchase of those shares. The transaction closed on May 17, 2005. The total cash payment was \$1,121 million and the investment was accounted for as a cost investment. No payments were made under a provision that required Verizon to pay an additional amount at the end of one year to the extent that the price of Verizon's common stock exceeded \$35.52 per share. We received the special dividend of \$5.60 per MCI share on these 43.4 million MCI shares, or \$243 million, on October 27, 2005.

Under the terms of the merger agreement, MCI shareholders received .5743 shares of Verizon common stock (\$5,050 million in the aggregate) and cash of \$2.738 (\$779 million in the aggregate) for each of their MCI shares. The merger consideration was equal to \$20.40 per MCI share, excluding the \$5.60 per share special dividend paid by MCI to its shareholders on October 27, 2005. There was no purchase price adjustment.

The merger was accounted for using the purchase method in accordance with the SFAS No. 141, *Business Combinations* (SFAS No. 141), and the aggregate transaction value was \$6,890 million, consisting of the cash and common stock issued at closing (\$5,829 million), the consideration for the shares acquired from the Carlos Slim Helú entities, net of the portion of the special dividend paid by MCI that was treated as a return of our investment (\$973 million) and closing and other direct merger-related costs. The number of shares issued was based on the "Average Parent Stock Price," as defined in the merger agreement. The consolidated financial statements include the results of MCI's operations from the date of the close of the merger.

Prior to the merger, there were commercial transactions between us and the former MCI entities for telecommunications services at rates comparable to similar transactions with other third parties. Subsequent to the merger, these transactions are eliminated in consolidation.

Reasons for the Merger

We believe that the merger will make us a more efficient competitor in providing a broad range of communications services and will result in several significant strategic benefits to us, including the following:

-
- **Strategic Position.** Following the merger, it is expected that our core strengths in communication services will be enhanced by MCI's employee and business customer base, portfolio of advanced data and IP services and network assets.

• **Growth Platform.** MCI's presence in the U.S. and international enterprise sector and its long haul fiber network infrastructure are expected to provide us with a stronger platform from which we can market our products and services.

• **Operational Benefits.** We believe that we will achieve operational benefits through, among other things, eliminating duplicative staff and information and operating systems and to a lesser extent overlapping network facilities; reducing procurement costs; using the existing networks more efficiently; reducing line support functions; reducing general and administrative expenses; improving information systems; optimizing traffic flow; eliminating planned or potential Verizon capital expenditures for new long-haul network capability; and offering wireless capabilities to MCI's customers.

Allocation of the cost of the merger

In accordance with SFAS No. 141, the cost of the merger was allocated to the assets acquired and liabilities assumed based on their fair values as of the close of the merger, with the amounts exceeding the fair value being recorded as goodwill. The process to identify and record the fair value of assets acquired and liabilities assumed included an analysis of the acquired fixed assets, including real and personal property; various contracts, including leases, contractual commitments, and other business contracts; customer relationships; investments; and contingencies.

The fair values of the assets acquired and liabilities assumed were determined using one or more of three valuation approaches: market, income and cost. The selection of a particular method for a given asset depended on the reliability of available data and the nature of the asset, among other considerations. The market approach, which indicates value for a subject asset based on available market pricing for comparable assets, was utilized for certain acquired real property and investments. The income approach, which indicates value for a subject asset based on the present value of cash flow projected to be generated by the asset, was used for certain intangible assets such as customer relationships, as well as for favorable/unfavorable contracts. Projected cash flow is discounted at a required rate of return that reflects the relative risk of achieving the cash flow and the time value of money. Projected cash flows for each asset considered multiple factors, including current revenue from existing customers; distinct analysis of expected price, volume, and attrition trends; reasonable contract renewal assumptions from the perspective of a marketplace participant; expected profit margins giving consideration to marketplace synergies; and required returns to contributory assets. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used for the majority of personal property. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated.

The following table summarizes the allocation of the cost of the merger to the assets acquired, including cash of \$2,361 million, and liabilities assumed as of the close of the merger. Certain of the amounts in the following table have been revised since the initial allocation to reflect information that has since become available.

		(dollar
rs in millions)		
Assets acquired		
Current assets		

		\$
6,001		
Property, plant & equipment		
	6,45	
3		
Intangible assets subject to amortization		
Customer relationships		
	1,16	
2		
Rights of way and other		
	176	
Deferred income taxes and other assets		
	1,99	
5		
Goodwill		
	5,08	
5		
Total assets acquired		
	\$	
20,872		
Liabilities assumed		
Current liabilities		
	\$	
6,093		
Long-term debt		
	6,16	
9		
Deferred income taxes and other non-current liabilities		
	1,72	
0		
Total liabilities assumed		
	13,9	
82		
Purchase price		
	\$	
6,890		

The goodwill resulting from the merger with MCI was assigned to the Wireline segment, which includes the operations of the former MCI. The customer relationships are being amortized on a straight-line basis over 3-8

years based on whether the relationship is with a consumer or a business customer since this correlates to the pattern in which the economic benefits are expected to be realized.

In connection with the merger, we recorded \$193 million of severance and severance-related costs and \$427 million of contract termination costs in the above allocation of the cost of the merger in accordance with the Emerging Issues Task Force Issue (EITF) No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination." We paid \$116 million of the severance and severance-related costs in 2006 with the remaining costs to be paid in 2007. We paid \$128 million of contract termination costs in 2006 and the remaining costs will be paid over the remaining contract periods through 2009. The following table summarizes the obligations recognized in connection with the MCI merger and the activity to date:

	Initial Allocation	Other Increases	Payments	Ending Balance
Severance costs and contract termination costs	\$ 459	\$ 161	\$ (244)	\$ 376

Pro Forma Information

The following unaudited pro forma consolidated results of operations assume that the MCI merger was completed as of January 1 for the periods shown below:

Years Ended December 31,	2006	2005
Revenues	\$ 88,371	\$ 85,739
Income before discontinued operations and cumulative effect of accounting change	5,480	6,724
Net income	6,197	8,176
Basic earnings per common share:		
Income before discontinued operations and cumulative effect of accounting change	1.88	2.30

Net income	2.13		
	2.79		
Diluted earnings per common share:			
Income before discontinued operations and cumulative effect of accounting change	1.88		
	2.28		
Net income	2.12		
	2.76		

The unaudited pro forma information presents the combined operating results of Verizon and the former MCI, with the results prior to the acquisition date adjusted to include the pro forma impact of: the elimination of transactions between Verizon and the former MCI; the adjustment of amortization of intangible assets and depreciation of fixed assets based on the purchase price allocation; the elimination of merger expenses incurred by the former MCI; the elimination of the loss on the early redemption of MCI's debt; the adjustment of interest expense reflecting the redemption of all of MCI's debt and the replacement of that debt with \$4 billion of new debt issued in February 2006 at Verizon's weighted average borrowing rate; and to reflect the impact of income taxes on the pro forma adjustments utilizing Verizon's statutory tax rate of 40%. The unaudited pro forma results for 2005 include \$82 million for discontinued operations that were sold by MCI during the first quarter of 2005. The unaudited pro forma results for 2005 include approximately \$300 million of net tax benefits resulting from tax reserve adjustments recognized by the former MCI primarily during the third and fourth quarters of 2005, including audit settlements and other activity.

The unaudited pro forma consolidated basic and diluted earnings per share for 2006 and 2005 are based on the consolidated basic and diluted weighted average shares of Verizon and the former MCI. The historical basic and diluted weighted average shares of the former MCI were converted for the actual number of shares issued upon the closing of the merger.

The unaudited pro forma results are presented for illustrative purposes only and do not reflect the realization of potential cost savings, or any related integration costs. Certain cost savings may result from the merger; however, there can be no assurance that these cost savings will be achieved. Cost savings, if achieved, could result from, among other things, the reduction of overhead expenses, including employee levels and the elimination of duplicate facilities and capital expenditures. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the merger occurred as of the beginning of each of the periods presented, nor does the pro forma data intend to be a projection of results that may be obtained in the future.

Other Acquisitions

In August 2002, Verizon Wireless and Price Communications Corp. (Price) combined Price's wireless business with a portion of Verizon Wireless. The resulting limited partnership, Verizon Wireless of the East LP (VZ East), is controlled and managed by Verizon Wireless. In exchange for its contributed assets, Price received a limited partnership interest in the new partnership which was exchangeable into the common stock of Verizon Wireless if an initial public offering of that stock occurred, or into the common stock of Verizon on the fourth anniversary of the asset contribution date. On August 15, 2006, Verizon delivered 29.5 million shares of newly-issued Verizon common stock to Price valued at \$1,007 million in exchange for Price's limited partnership interest in VZ East. As a result of acquiring Price's limited partnership interest, Verizon recorded goodwill of \$345 million in the third quarter of 2006 attributable to its Domestic Wireless segment.

On November 29, 2006, we were granted thirteen 20MHz licenses we won in an FCC auction that concluded on September 18, 2006. We paid a total of \$2,809 million for the licenses, which cover a population of nearly 200 million.

Note 3

Discontinued Operations and Sales of Businesses, Net

Verizon Information Services

In October, 2006, we announced our intention to spin-off our domestic print and Internet yellow pages directories publishing operations, which have been organized into a newly formed company known as Idearc Inc. (Idearc). On October 18, 2006, the Verizon Board of Directors declared a dividend consisting of 1 share of Idearc for each 20 shares of Verizon owned. In making its determination to effect the spin-off, Verizon's Board of Directors considered, among other things, that the spin-off may allow each company to separately focus on its core business, which may facilitate the potential expansion and growth of Verizon and Idearc, and allow each company to determine its own capital structure.

On November 17, 2006, we completed the spin-off of Idearc. Cash was paid for fractional shares. The distribution of Idearc common stock to our shareholders is considered a tax free transaction for us and for our shareowners, except for the cash payments for fractional shares which are generally taxable.

At the time of the spin-off, the exercise price of and number of shares of Verizon common stock underlying options to purchase shares of Verizon common stock, restricted stock units (RSU's) and performance stock units (PSU's) were adjusted pursuant to the terms of the applicable Verizon equity incentive plans, taking into account the change in the value of Verizon common stock as a result of the spin-off.

In connection with the spin-off, Verizon received approximately \$2.0 billion in cash from the proceeds of loans under an Idearc term loan facility and transferred to Idearc debt obligations in the aggregate principal amount of approximately \$7.1 billion thereby reducing Verizon's outstanding debt at that time. We incurred pretax charges of approximately \$117 million (\$101 million after-tax), including debt retirement costs, costs associated with accumulated vesting benefits of Idearc employees, investment banking fees and other transaction costs related to the spin-off, which are included in discontinued operations.

In connection with the spin-off, we named Idearc the exclusive official publisher of Verizon print directories of wireline listings in markets where Verizon is the current incumbent local exchange carrier. We also entered into other agreements that defined responsibility for obligations arising before or that may arise after the spin-off, including, among others, obligations relating to Idearc employees, certain transition services and taxes. In general, the agreements governing the exchange of services between us and Idearc are for specified periods at cost-based or commercial rates.

Verizon Dominicana C. por A., Telecomunicaciones de Puerto Rico, Inc. and Compañía Anónima Nacional Teléfonos de Venezuela

During the second quarter of 2006, we reached definitive agreements to sell our interests in our Caribbean and Latin American telecommunications operations in three separate transactions to América Móvil, S.A. de C.V. (América Móvil), a wireless service provider throughout Latin America, and a company owned jointly by Teléfonos de México, S.A. de C.V. (Telmex) and América Móvil. We agreed to sell our 100 percent indirect interest in Verizon Dominicana C. por A. (Verizon Dominicana) and our 52 percent interest in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) to América Móvil. An entity jointly owned by América Móvil and Telmex agreed to purchase our indirect 28.5 percent interest in Compañía Anónima Nacional Teléfonos de Venezuela (CANTV).

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS No. 144) we have classified the results of operations of Verizon Dominicana and TELPRI as discontinued operations. CANTV continues to be accounted for as an equity method investment.

On December 1, 2006, we closed the sale of Verizon Dominicana. The transaction resulted in net pretax cash proceeds of \$2,042 million, net of a purchase price adjustment of \$373 million. The U.S. taxes that became payable and were recognized at the time the transaction closed exceeded the \$30 million pretax gain resulting in an after-tax loss of \$541 million.

We expect to close the sale of our interest in TELPRI in 2007 subject to the receipt of regulatory approvals and in accordance with the terms of the definitive agreement. We expect that the sale will result in approximately \$900 million in net pretax cash proceeds.

During the second quarter of 2006, we entered into a definitive agreement to sell our indirect 28.5% interest in CANTV to an entity jointly owned by América Móvil and Telmex for estimated pretax proceeds of \$677 million. Regulatory authorities in Venezuela never commenced the formal review of that transaction and the related tender offers for the remaining equity securities of CANTV. On February 8, 2007, after two prior extensions, the parties terminated the stock purchase agreement because the parties mutually concluded that the regulatory approvals would not be granted by the Government.

In January 2007, the Bolivarian Republic of Venezuela (the Republic) declared its intent to nationalize certain companies, including CANTV. On February 12, 2007, we entered into a Memorandum of Understanding (MOU) with the Republic. The MOU provides that the Republic will offer to purchase all of the equity securities of CANTV through public tender offers in Venezuela and the United States at a price equivalent to \$17.85 per ADS. If the tender offers are completed, the aggregate purchase price for Verizon's shares would be \$572 million. If the 2007 dividend that has been recommended by the CANTV Board is approved by shareholders and paid prior to the closing of the tender offers, this amount will be reduced by the amount of the dividend. Verizon has agreed to tender its shares if the offers are commenced. The Republic has

agreed to commence the offers within forty-five days assuming the satisfactory completion of its due diligence investigation of CANTV. The tender offers are subject to certain conditions including that a majority of the outstanding shares are tendered to the Government and receipt of regulatory approvals. Based upon the terms of the MOU and our current investment balance in CANTV, we expect that we will record a loss on our investment in the first quarter of 2007. The ultimate amount of the loss depends on a variety of factors, including the successful completion of the tender offer and the satisfaction of other terms in the MOU.

Verizon Information Services Canada

During 2004, we announced our decision to sell Verizon Information Services Canada Inc. to an affiliate of Bain Capital, a global private investment firm, for \$1,540 million (Cdn. \$1,985 million). The sale closed during the fourth quarter of 2004 and resulted in a gain of \$1,017 million (\$516 million after-tax).

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), we have classified the results of operation of the U.S. print and Internet yellow pages directories business, Verizon Dominicana and Verizon Information Services Canada as discontinued operations in the consolidated statements of income for all years presented through the date of the spin-off or sale. We have also classified the results of operations of TELPRI, which we continued to own at December 31, 2006, as discontinued operations in the consolidated statements of income. Our investment in CANTV continues to be accounted for as an equity method investment in continuing operations.

The assets and liabilities of the U.S. print and Internet yellow pages directories business, Verizon Information Services Canada, Verizon Dominicana and TELPRI are disclosed as current assets and current liabilities held for

sale in the consolidated balance sheets for all years presented through the date of their spin-off or divestiture. Additional detail related to those assets and liabilities are as follows:

		(dollars in millions)		
		At December 31, 2006		
		At December 31, 2005		
Current assets		\$ 303		
		\$ 995		
Plant, property and equipment, net		1,436		
		2,318		
Other non-current assets		853		
		920		
Total assets		\$ 2,592		
		\$ 4,233		
Current liabilities		\$ 181		
		\$ 1,369		
Long-term debt		575		
		300		
Other non-current liabilities		1,398		
		1,201		
Total liabilities		\$ 2,154		
		\$ 2,870		

Related to the assets and liabilities above is \$241 million and \$898 million included as Accumulated Other Comprehensive Loss in the condensed consolidated balance sheets as of December 31, 2006 and December 31, 2005, respectively.

Income from discontinued operations, net of tax presented in the consolidated statements of income included the following:

			(dollars in	
		millions)		
Years Ended December 31,		2006		2005
			2004	
Operating Revenues		\$ 5,077		\$ 5,595
				\$ 5,812
Income before provision for income taxes		2,041		2,159
				3,251
Provision for income taxes		(1,282)	)	(789)

	)	(1,319)			
Income on discontinued operations, net of tax	\$ 759		\$ 1,370		
			\$ 1,932		

Verizon Hawaii Inc.

During the second quarter of 2004, we entered into an agreement to sell our wireline and directory businesses in Hawaii, including Verizon Hawaii Inc. which operated approximately 700,000 switched access lines, as well as the services and assets of Verizon Long Distance, Verizon Online, Verizon Information Services and Verizon Select Services Inc. in Hawaii, to an affiliate of The Carlyle Group. This transaction closed during the second quarter of 2005. In connection with this sale, we received net proceeds of \$1,326 million and recorded a net pretax gain of \$530 million (\$336 million after-tax).

Note 4

Other Strategic Actions

Spin-off Transaction Charges

In 2006, we recorded pretax charges of \$117 million (\$101 million after-tax) for costs related to the spin-off of Idearc. These costs primarily consisted of banking and legal fees; as well as filing fees, printing and mailing costs. There were no similar charges in 2005 and 2004.

Merger Integration Costs

In 2006, we recorded pretax charges of \$232 million (\$146 million after-tax) related to integration costs associated with the MCI acquisition that closed on January 6, 2006. These costs are primarily comprised of advertising and other costs related to re-branding initiatives and systems integration activities. There were no similar charges incurred in 2005 and 2004.

Facility and Employee-Related Items

During 2006, we recorded pretax charges of \$184 million (\$118 million after-tax) in connection with the continued relocation of employees and business operations to Verizon Center located in Basking Ridge, New Jersey. During 2005, we recorded a net pretax gain of \$18 million (\$8 million after-tax) in connection with this relocation of our new operations center, Verizon Center, including a pretax gain of \$120 million (\$72 million after-tax) related to the sale of a New York City office building, partially offset by a pretax charge of \$102 million (\$64 million after-tax) primarily associated with relocation, employee severance and related activities. There were no similar charges incurred in 2004.

During 2006, we recorded net pretax severance, pension and benefits charges of \$425 million (\$258 million after-tax, including \$3 million of income recorded to discontinued operations). These charges included net pretax pension settlement losses of \$56 million (\$26 million after-tax) related to employees that received lump-sum distributions primarily resulting from our separation plans. These charges were recorded in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS No. 88), which requires that settlement losses be recorded once prescribed payment thresholds have been reached. Also included are pretax charges of \$369 million (\$228 million after-tax), for employee severance and severance-related costs in connection with the involuntary separation of approximately 4,100 employees. In addition, during 2005 we recorded a charge of \$59 million (\$36 million after-tax) associated with employee severance costs and severance-related activities in connection with the voluntary separation

program for surplus union-represented employees.

During 2005, we recorded a net pretax charge of \$98 million (\$59 million after-tax) related to the restructuring of the Verizon management retirement benefit plans. This pretax charge was recorded in accordance with SFAS No. 88, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (SFAS No. 106) and includes the unamortized cost of prior pension enhancements of \$430 million offset partially by a pretax curtailment gain of \$332 million related to retiree medical benefits. In connection with this restructuring, management employees: no longer earn pension benefits or earn service towards the company retiree medical subsidy after June 30, 2006; received an 18-month enhancement of the value of their pension and retiree medical subsidy; and receive a higher savings plan matching contribution.

During 2004, we recorded pretax pension settlement losses of \$805 million (\$492 million after-tax) related to employees that received lump-sum distributions during 2004 in connection with the voluntary separation plan under which more than 21,000 employees accepted the separation offer in the fourth quarter of 2003. These charges were recorded in accordance with SFAS No. 88. In addition, we recorded a \$7 million after-tax charge in income from discontinued operations, related to the 2003 separation plan.

Tax Matters

During 2005, we recorded a tax benefit of \$336 million in connection with capital gains and prior year investment losses. As a result of the capital gain realized in 2005 in connection with the sale of our Hawaii businesses, we recorded a tax benefit of \$242 million related to capital losses incurred in previous years. The investment losses pertain to Iusacell, CTI Holdings, S.A. (CTI) and TelecomAsia.

Also during 2005, we recorded a net tax provision of \$206 million related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004, for two of our foreign investments.

As a result of the capital gain realized in 2004 in connection with the sale of Verizon Information Services Canada, we recorded tax benefits of \$234 million in the fourth quarter of 2004 pertaining to prior year investment impairments. The investment impairments primarily related to debt and equity investments in CTI, Cable & Wireless plc and NTL Incorporated.

Other Charges and Special Items

During 2006, we recorded pretax charges of \$26 million (\$16 million after-tax) resulting from the extinguishment of debt assumed in connection with the completion of the MCI merger.

During 2006, we recorded after-tax charges of \$42 million to recognize the adoption of SFAS No. 123 (R).

During 2005, we recorded pretax charges of \$139 million (\$133 million after-tax) including a pretax impairment charge of \$125 million pertaining to aircraft leased to airlines involved in bankruptcy proceedings and a pretax charge of \$14 million (\$8 million after-tax) in connection with the early extinguishment of debt.

In the second quarter of 2004, we recorded an expense credit of \$204 million (\$123 million after-tax) resulting from the favorable resolution of pre-bankruptcy amounts due from MCI that were recovered upon the emergence of MCI from bankruptcy.

Also during 2004, we recorded an impairment charge of \$113 million (\$87 million after-tax) related to our international long distance and data network. In addition, we recorded pretax charges of \$55 million (\$34 million after-tax) in connection with the early extinguishment of debt.

During 2004, we recorded a pretax gain of \$787 million (\$565 million after-tax) on the sale of our 20.5% interest

in TELUS in an underwritten public offering in the U.S. and Canada. In connection with this sale transaction, Verizon recorded a contribution of \$100 million to Verizon Foundation to fund its charitable activities and increase its self-sufficiency. Consequently, we recorded a net gain of \$500 million after taxes related to this transaction and the accrual of the Verizon Foundation contribution.

Note 5

Marketable Securities and Other Investments

We have investments in marketable securities which are considered “available-for-sale” under SFAS No. 115. These investments have been included in our consolidated balance sheets in Short-Term Investments, Investments in Unconsolidated Businesses and Other Assets.

Under SFAS No. 115, available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses (net of income taxes) that are considered temporary in nature recorded in Accumulated Other Comprehensive Loss. The fair values of our investments in marketable securities are determined based on market quotations. We continually evaluate our investments in marketable securities for impairment due to declines in market value considered to be other than temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other than temporary, a charge to earnings is recorded in Other Income and Expense, Net in the consolidated statements of income for all or a portion of the unrealized loss, and a new cost basis in the investment is established. As of December 31, 2006, no impairments were determined to exist.

The following table shows certain summarized information related to our investments in marketable securities:

				(dollars in millions)			
	Cost	Gross Unrealized					
Gains	Gross Unrealized Losses			Fair Value			
At December 31, 2006							
Short-term investments	\$ 616	\$ 28					
	\$ -	\$					
644							
Investments in unconsolidated businesses	259	38					
	(2)	295					
Other assets	594	31	-				
		625					
	\$ 1,469	\$ 97					
	\$ (2))	\$				
1,564							
At December 31, 2005							
Short-term investments	\$ 373	\$ 9					
	\$ -	\$					

Investments in unconsolidated businesses	215	13				
	(3)	225				
Other assets	548	19	-			
		567				
	\$ 1,136	\$ 41				
	\$ (3)		\$			

1,174

Our investments in marketable securities are primarily bonds and mutual funds.

During 2004, we sold all of our investment in Iowa Telecom preferred stock, which resulted in a pretax gain of \$43 million (\$43 million after-tax) included in Other Income and Expense, Net in the consolidated statements of income. The preferred stock was received in 2000 in connection with the sale of access lines in Iowa.

Certain other investments in securities that we hold are not adjusted to market values because those values are not readily determinable and/or the securities are not marketable. We have, however, adjusted the carrying values of these securities in situations where we believe declines in value below cost were other than temporary. The carrying values for investments not adjusted to market value were \$12 million at December 31, 2006 and \$5 million at December 31, 2005.

Note 6

Plant, Property and Equipment

The following table displays the details of plant, property and equipment, which is stated at cost:

	(dollars in millions)	
At December 31,	2006	2005
Land	\$ 959	\$ 706
Buildings and equipment	19,207	16,312
Network equipment	163,580	152,409
Furniture, office and data processing equipment	12,789	12,272
Work in progress	2,315	

		1,475		
Leasehold improvements	3,061			
	2,297			
Other	2,198			
	2,290			
	204,109			
	187,761			
Accumulated depreciation	(121,753			
)			
	(114,774)			
Total	\$ 82,356			
	\$			
72,987				

Note 7

Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill are as follows:

					(dollars in millions)
					Wireline
					Domestic Wireless Total
Balance at December 31, 2004 and 2005	\$ 315			\$	
-	\$ 315				
Acquisitions	5,085				
	345				
	5,430				
Goodwill reclassifications and other	(90)			-	
	(90)				
Balance at December 31, 2006	\$ 5,310			\$	
345	\$ 5,655				

Other Intangible Assets

The following table displays the details of other intangible assets:

		(dollars in millions)	
		At December 31, 2006	At
December 31, 2005			
	Amortization	Gross Amount	Accumulated
	Amortization	Gross Amount	Accumulated
Finite-lived intangible assets:			
Customer lists (3 to 8 years)		\$ 1,278	\$ 270
3,436		\$ 3,279	
Non-network internal-use software (1 to 7 years)		7,777	3,826
		7,081	3,193
Other (1 to 25 years)		204	23
		3	26
Total		\$ 9,259	\$ 4,119
10,543		\$ 6,475	
Indefinite-lived intangible assets:			
Wireless licenses		\$ 50,959	\$
47,781			

Customer lists of \$1,278 million includes \$1,162 million related to the MCI acquisition. Customer lists of \$3,313 million at Domestic Wireless became fully amortized and were written off during 2006. Intangible asset amortization expense was \$1,423 million, \$1,444 million, and \$1,334 million for the years ended December 31, 2006, 2005 and 2004, respectively. It is estimated to be \$1,201 million in 2007, \$1,047 million in 2008, \$856 million in 2009, \$633 million in 2010 and \$483 million in 2011, primarily related to customer lists and non-network internal-use software.

Note 8

Investments in Unconsolidated Businesses

Our investments in unconsolidated businesses are comprised of the following:

		(dollars in millions)	
		2006	2005
At December 31,		Ownership	Investment

	Ownership	Investment					
Equity Investees							
CANTV	28.5	%		\$			
230	28.5	%		\$			
152							
Vodafone Omnitel	23.1		3,624				
	23.1		2,591				
Other	Various		744				
	Various		770				
Total equity investees			4,598				
			3,513				
Cost Investees	Various		270				
	Various		1,089				
Total investments in unconsolidated businesses			\$ 4,868				
			\$ 4,602				

Dividends and repatriations of foreign earnings received from investees amounted to \$42 million in 2006, \$2,335 million in 2005 and \$162 million in 2004, respectively, and are reported in Other, Net operating activities in the consolidated statements of cash flows.

Equity Investees

CANTV

CANTV is Venezuela's largest full-service telecommunications provider. CANTV offers local services, national and international long distance, Internet access and wireless services in Venezuela as well as public telephone, private network, data transmission, directory and other value-added services. Our \$230 million investment in CANTV is net of approximately \$400 million of foreign currency translation adjustments that are included in Accumulated Other Comprehensive Loss.

In the second quarter of 2006, we reached a definitive agreement to sell our indirect 28.5% interest in CANTV to an entity jointly owned by América Móvil and Telmex. That agreement was terminated on February 8, 2007. On February 12, 2007, we announced our intention to participate in the Venezuelan government's offer to purchase our shares in CANTV through public tender offers in Venezuela and the U.S. (See Note 23).

Vodafone Omnitel

Vodafone Omnitel N.V. (Vodafone Omnitel) is an Italian digital cellular telecommunications company. It is the second largest wireless provider in Italy. At December 31, 2006 and 2005, our investment in Vodafone Omnitel included goodwill of \$1,044 million and \$937 million, respectively.

During 2005, we repatriated \$2,202 million of Vodafone Omnitel's earnings through the repurchase of issued and outstanding shares of its equity. Vodafone Omnitel's owners, Verizon and Vodafone Group Plc (Vodafone), participated on a pro rata basis; consequently, Verizon's ownership interest after the share repurchase remained at 23.1%.

Other Equity Investees

Verizon has limited partnership investments in entities that invest in affordable housing projects, for which Verizon provides funding as a limited partner and receives tax deductions and tax credits based on its partnership interests. At December 31, 2006 and 2005, Verizon had equity investments in these partnerships of \$659 million and \$652 million, respectively. Verizon currently adjusts the carrying value of these investments for any losses incurred by the limited partnerships through earnings.

The remaining investments include wireless partnerships in the U.S., and other smaller domestic and international investments.

Cost Investees

Some of our cost investments are carried at their current market value. Other cost investments are carried at their original cost, except in cases where we have determined that a decline in the estimated market value of an investment is other than temporary as described in Note 5. Our cost investments include a variety of domestic and international investments primarily involved in providing communication services.

Our cost investments in unconsolidated businesses included 43.4 million of shares of MCI common stock that were converted upon the closing of the MCI merger (see Note 2).

Note 9			
Minority Interest			

Minority interests in equity of subsidiaries were as follows:

				(dolla
rs in millions)				
At December 31,				
				2006
				2005
Minority interests in consolidated subsidiaries*:				
Wireless joint venture (55%)				\$
27,854				\$
24,683				
Cellular partnerships and other (various)				483

					1,65
0					
Preferred securities issued by subsidiaries				-	
					100
					\$
28,337					\$
26,433					
* Indicated ownership percentages are Verizon's consolidated interests.					

Wireless Joint Venture

The wireless joint venture was formed in April 2000 in connection with the combination of the U.S. wireless operations and interests of Verizon and Vodafone. The wireless joint venture operates as Verizon Wireless. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%.

Under the terms of an investment agreement, Vodafone had the right to require Verizon Wireless to purchase up to an aggregate of \$20 billion worth of Vodafone's interest in Verizon Wireless at designated times (put windows) at its then fair market value, not to exceed \$10 billion in any one put window. Vodafone had the right to require the purchase of up to \$10 billion during a 61-day period which opened on June 10 and closed on August 9 in 2006, and did not exercise that right. As of December 31, 2006, Vodafone only has the right to require the purchase of up to \$10 billion worth of its interest, during a 61-day period opening on June 10 and closing on August 9 in 2007, under its one remaining put window. Vodafone also may require that Verizon Wireless pay for up to \$7.5 billion of the required repurchase through the assumption or incurrence of debt. In the event Vodafone exercises its one remaining put right, we (instead of Verizon Wireless) have the right, exercisable at our sole discretion, to purchase up to \$2.5 billion of Vodafone's interest for cash or Verizon stock at our option.

Cellular Partnerships and Other

In August 2002, Verizon Wireless and Price Communications Corp. (Price) combined Price's wireless business with a portion of Verizon Wireless. The resulting limited partnership, Verizon Wireless of the East LP (VZ East), is controlled and managed by Verizon Wireless. In exchange for its contributed assets, Price received a limited partnership interest in the new partnership which was exchangeable into the common stock of Verizon Wireless if an initial public offering of that stock occurred, or into the common stock of Verizon on the fourth anniversary of the asset contribution date. On August 15, 2006, Verizon delivered 29.5 million shares of newly-issued Verizon common stock to Price valued at \$1,007 million in exchange for Price's limited partnership interest in VZ East.

Preferred Securities Issued By Subsidiaries

On January 15, 2006, Verizon redeemed \$100 million Verizon International Holdings Ltd. Series A variable term voting cumulative preferred stock at the redemption price per share of \$100,000, plus accrued and unpaid dividends.

Note 10
Leasing Arrangements

As Lessor

Years Ended December 31,	2006				
	2005				
	2004				
Pretax lease income	\$ 96				
	\$ 119				
	\$ 63				
Income tax expense/(benefit)	57				
	(25)				
	(52)				
Investment tax credits	4				
	4				
	3				

The future minimum lease payments to be received from noncancelable leases, net of nonrecourse loan payments related to leveraged and direct financing leases in excess of debt service requirements, for the periods shown at December 31, 2006, are as follows:

		(dollars in			
millions)					
Years		Capital Leases			
		Operating			
Leases					
2007		\$ 128			
		\$ 32			
2008		92			
		18			
2009		153			
		14			
2010		132			
		11			
2011		114			
		8			
Thereafter		2,820			
		24			
Total		\$ 3,439			
		\$ 107			

As Lessee

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense from continuing operations under operating leases amounted to \$1,608 million in 2006, \$1,458 million in 2005 and \$1,278 million in 2004.

Capital lease amounts included in plant, property and equipment are as follows:

--	--	--	--	--

(dollars in millions)

At December 31,				
-----------------	--	--	--	--

2006

2005

Capital leases				
----------------	--	--	--	--

\$ 359

\$ 313

Accumulated amortization				
--------------------------	--	--	--	--

(160

)

(137

)

Total				
-------	--	--	--	--

\$ 199

\$ 176

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2006, are as follows:

		(dollars in millions)			
Years	Capital Leases				
	Operating Leases				
2007	\$ 80				
	\$ 1,739				
2008	69				
	1,194				
2009	64				
	998				
2010	55				
	724				
2011	51				
	459				
Thereafter	161				
	1,729				
Total minimum rental commitments	480				
	\$ 6,843				
Less interest and executory costs	(120)				
Present value of minimum lease payments	360				
Less current installments	(55)				

Long-term obligation at December 31, 2006	\$	305				
---	----	-----	--	--	--	--

As of December 31, 2006, the total minimum sublease rentals to be received in the future under noncancelable operating and capital subleases were \$124 million and \$0.9 million, respectively.

Note 11
Debt

Debt Maturing Within One Year

Debt maturing within one year is as follows:

--	--	--	--	--

(dollars in millions)				
At December 31,		2006		
		2005		

Long-term debt maturing within one year	\$			
4,139	\$			
4,526				
Commercial paper				
		3,576		

Other short-term debt	-			
		10		

Total debt maturing within one year	\$			
7,715	\$			
6,688				

The weighted average interest rate for our commercial paper at year-end December 31, 2006 and December 31, 2005 was 5.3% and 4.3%, respectively.

Capital expenditures (primarily acquisition and construction of network assets) are partially financed, pending long-term financing, through bank loans and the issuance of commercial paper payable within 12 months.

At December 31, 2006, we had approximately \$6.2 billion of unused bank lines of credit. Certain of these lines of credit contain requirements for the payment of commitment fees.

Long - Term Debt

Outstanding long-term debt obligations are as follows:

(dollars in millions)			
At December 31,	Interest Rates %	Maturities	
	2006		2005
Notes payable	4.00 - 8.25	2007 - 2035	\$
14,805		\$ 15,610	
Telephone subsidiaries - debentures and first/refunding mortgage bonds	4.63 - 7.00	2007 - 2042	
	11,703		
	11,869		
	7.15 - 7.65	2007 - 2032	
	1,275		1,725
	7.85 - 8.75	2010 - 2031	
	1,679		1,926
Other subsidiaries - debentures and other	4.25 - 10.75	2007 - 2028	
	2,977		3,410
Zero-coupon convertible notes, net of unamortized discount of \$- and \$790		-	-
	-		1,360
Employee stock ownership plan loans:			
NYNEX debentures	9.55	2010	92
			113
Capital lease obligations (average rate 8.0% and 11.9%)	-	-	
	360		112
Property sale holdbacks held in escrow, vendor financing and other			-
		13	

Previously in May 2001, Verizon Global Funding issued approximately \$5.4 billion in principal amount at maturity of zero-coupon convertible notes due 2021, resulting in gross proceeds of approximately \$3 billion. The notes were convertible into shares of our common stock at an initial price of \$69.50 per share if the closing price of Verizon common stock on the New York Stock Exchange exceeded specified levels or in other specified circumstances. The conversion price increased by at least 3% a year. The initial conversion price represented a 25% premium over the May 8, 2001 closing price of \$55.60 per share. The notes were redeemable at the option of the holders on May 15th in each of the years 2004, 2006, 2011 and 2016. On May 15, 2004, \$3,292 million of principal amount of the notes (\$1,984 million after unamortized discount) were redeemed by Verizon Global Funding. In addition, the zero-coupon convertible notes were callable by Verizon on or after May 15, 2006. On May 16, 2006, we redeemed the remaining \$1,375 million accreted principal of the remaining outstanding zero-coupon convertible principal. The total payment on the date of redemption was \$1,377 million.

Support Agreements

All of Verizon Global Funding's debt had the benefit of Support Agreements between us and Verizon Global Funding, which gave holders of Verizon Global Funding debt the right to proceed directly against us for payment of interest, premium (if any) and principal outstanding should

Verizon Global Funding fail to pay. The holders of Verizon Global Funding debt did not have recourse to the stock or assets of most of our telephone operations; however, they did have recourse to dividends paid to us by any of our consolidated subsidiaries as well as assets not covered by the exclusion. On February 1, 2006, Verizon announced the merger of Verizon Global Funding into Verizon. As a result of the merger all of Verizon Global Funding's debt has been assumed by Verizon by operation of law.

In addition, Verizon Global Funding had guaranteed the debt obligations of GTE Corporation (but not the debt of its subsidiary or affiliate companies) that were issued and outstanding prior to July 1, 2003. In connection with the merger of Verizon Global Funding into Verizon, Verizon has assumed this guarantee. As of December 31, 2006, \$2,950 million principal amount of these obligations remained outstanding.

Verizon and NYNEX Corporation are the joint and several co-obligors of the 20-Year 9.55% Debentures due 2010 previously issued by NYNEX on March 26, 1990. As of December 31, 2006, \$92 million principal amount of this obligation remained outstanding. NYNEX and GTE no longer issue public debt or file SEC reports. See Note 20 for information on guarantees of operating subsidiary debt listed on the New York Stock Exchange.

Debt Covenants

We and our consolidated subsidiaries are in compliance with all of our debt covenants.

Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2006 are \$4.1 billion in 2007, \$2.5 billion in 2008, \$1.4 billion in 2009, \$2.8 billion in 2010, \$2.6 billion in 2011 and \$19.4 billion thereafter.

Note 12

Financial Instruments

Derivatives

The ongoing effect of SFAS No. 133 and related amendments and interpretations on our consolidated financial statements will be determined each period by several factors, including the specific hedging instruments in place

and their relationships to hedged items, as well as market conditions at the end of each period.

Interest Rate Risk Management

We have entered into domestic interest rate swaps, to achieve a targeted mix of fixed and variable rate debt, where we principally receive fixed rates and pay variable rates based on LIBOR. These swaps hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value in our balance sheet as assets and liabilities and adjust debt for the change in its fair value due to changes in interest rates. The ineffective portions of these hedges were recorded as gains in the consolidated statements of income of \$4 million for the year ended December 31, 2004.

We also enter into interest rate derivatives to limit our exposure to interest rate changes. In accordance with the provisions of SFAS No. 133, changes in fair value of these cash flow hedges due to interest rate fluctuations are recognized in Accumulated Other Comprehensive Loss. We recorded Other Comprehensive Income (Loss) of \$14 million and \$10 million related to these interest rate cash flow hedges for the years ended December 31, 2006 and 2005, respectively.

Foreign Exchange Risk Management

From time to time, our foreign exchange risk management has included the use of foreign currency forward contracts and cross currency interest rate swaps with foreign currency forwards. These contracts are typically used to hedge short-term foreign currency transactions and commitments, or to offset foreign exchange gains or losses on the foreign currency obligations and are designated as cash flow hedges. There were no foreign currency contracts outstanding as of December 31, 2006 and 2005. We record these contracts at fair value as assets or liabilities and the related gains or losses are deferred in shareowners' investment as a component of Accumulated Other Comprehensive Loss. We have recorded net unrealized gains of \$17 million in Other Comprehensive Income (Loss) for the year ended December 31, 2004.

Net Investment Hedges

During 2005, we entered into zero cost euro collars to hedge a portion of our net investment in Vodafone Omnitel. In accordance with the provisions of SFAS No. 133 and related amendments and interpretations, changes in fair value of these contracts due to exchange rate fluctuations were recognized in Accumulated Other Comprehensive Loss and offset the impact of foreign currency changes on the value of our net investment. During 2005, our positions in the zero cost euro collars were settled. As of December 31, 2006 and 2005, Accumulated Other Comprehensive Loss includes unrecognized gains of \$2 million related to these hedge contracts, which along with the unrealized foreign currency translation balance of the investment hedged, remains unless the investment is sold.

During 2004, we entered into foreign currency forward contracts to hedge our net investment in our Canadian operations. In accordance with the provisions of SFAS No. 133, changes in the fair value of these contracts due to exchange rate fluctuations were recognized in Accumulated Other Comprehensive Loss and offset the impact of foreign currency changes on the value of our net investment. During 2004, we sold our Canadian operations and the unrealized losses on these net investment hedge contracts were recognized in net income along with the corresponding foreign currency translation balance. We recorded realized losses of \$106 million (\$58 million after-tax) related to these hedge contracts.

Other Derivatives

On May 17, 2005, we purchased 43.4 million shares of MCI common stock under a stock purchase agreement that contained a provision for the payment of an additional cash amount determined immediately prior to April 9, 2006 based on the market price of Verizon's common stock. (See Note 2). Under SFAS No. 133, this additional cash payment was an embedded derivative which we carried at fair value and was subject to changes in the market price

of Verizon stock. Since this derivative did not qualify for hedge accounting under SFAS No. 133, changes in its fair value were recorded in the consolidated statements of income in Other Income and (Expense), Net. During 2006 and 2005, we recorded pretax income of \$4 million and \$57 million, respectively, in connection with this embedded derivative. As of December 31, 2006, this embedded derivative has expired with no requirement for an additional cash payment made under the stock purchase agreement.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, short-term and long-term investments, trade receivables, certain notes receivable including lease receivables and derivative contracts. Our policy is to deposit our temporary cash investments with major financial institutions. Counterparties to our derivative contracts are also major financial institutions and organized exchanges. The financial institutions have all been accorded high ratings by primary rating agencies. We limit the dollar amount of contracts entered into with any one financial institution and monitor our counterparties' credit ratings. We generally do not give or receive collateral on swap agreements due to our credit rating and those of our counterparties. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial condition.

Fair Values of Financial Instruments

The tables that follow provide additional information about our significant financial instruments:

Financial Instrument	Valuation Method
Cash and cash equivalents and short-term investments	Carrying amounts
Short- and long-term debt (excluding capital leases) future cash flows discounted at current rates	Market quotes for similar terms and maturities or
Cost investments in unconsolidated businesses, derivative assets and liabilities and notes receivable	Future cash flows discounted at current rates, market quotes for similar instruments or other valuation models
	(dollars in millions)
At December 31,	2006
	2005
	Carrying Amount
	Fair
Value	Carrying Amount
Value	Fair
Short- and long-term debt	\$ 36,000
	\$ 37,165
	\$ 38,145
	\$ 39,549
Cost investments in unconsolidated businesses	270
	270
	1,089
	1,089
Short- and long-term derivative assets	31
	31
	62
	62
Short- and long-term derivative liabilities	10
	10

Note 13**Earnings Per Share and Shareowners' Investment****Earnings Per Share**

The following table is a reconciliation of the numerators and denominators used in computing earnings per common share:

(dollars and shares in millions, except per share amounts)			
Years Ended December 31,	2006	2005	2004
Net Income Used For Basic Earnings Per Common Share			
Income before discontinued operations and cumulative effect of accounting change	\$ 5,480		
	\$ 6,027	\$	
5,899			
Income on discontinued operations, net of tax	759		
	1,370		
	1,932		
Cumulative effect of accounting change, net of tax	(42)) -	
	-		
Net income	\$ 6,197		
	\$ 7,397	\$	
7,831			
Net Income Used For Diluted Earnings Per Common Share			
Income before discontinued operations and cumulative effect of accounting change	\$ 5,480		
	\$ 6,027	\$	
5,899			
After-tax minority interest expense related to exchangeable equity interest	20		
	32	27	
After-tax interest expense related to zero-coupon convertible notes	11		
	28	41	
Income before discontinued operations and cumulative effect of accounting change - after assumed conversion of dilutive securities	5,511		

	6,087			
	5,967			
Income on discontinued operations, net of tax	759			
	1,370			
	1,932			
Cumulative effect of accounting change, net of tax	(42))	-	
	-			
Net income - after assumed conversion of dilutive securities	\$ 6,228			
	\$ 7,457	\$		
7,899				
Basic Earnings Per Common Share ^(a)				
Weighted-average shares outstanding - basic	2,912			
	2,766			
	2,770			
Income before discontinued operations and cumulative effect of accounting change	\$ 1.88			
	\$ 2.18	\$		
2.13				
Income on discontinued operations, net of tax	.26			
	.50			
	.70			
Cumulative effect of accounting change, net of tax	(.01))	-	
	-			
Net income	\$ 2.13			
	\$ 2.67	\$		
2.83				
Diluted Earnings Per Common Share ^(a)				
Weighted-average shares outstanding	2,912			
	2,766			
	2,770			
Effect of dilutive securities:				
Stock options	1			
	5	5		
Exchangeable equity interest	18			
	29	29		
Zero-coupon convertible notes	7			
	17	27		

Weighted-average shares - diluted	2,938				
	2,817				
	2,831				
Income before discontinued operations and cumulative effect of accounting change	\$ 1.88				
	\$ 2.16	\$			
2.11					
Income on discontinued operations, net of tax	.26				
	.49				
	.68				
Cumulative effect of accounting change, net of tax	(.01))	-		
	-				
Net income	\$ 2.12				
	\$ 2.65	\$			

2.79

(1) Total per share amounts may not add due to rounding.

Certain outstanding options to purchase shares were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the period, including approximately 228 million shares during 2006, 250 million shares during 2005 and 262 million shares during 2004.

The zero-coupon convertible notes were retired on May 15, 2006. (see Note 11).

The exchangeable equity interest was converted on August 15, 2006 by issuing 29.5 million Verizon shares (see Note 9).

Shareowners' Investment

Our certificate of incorporation provides authority for the issuance of up to 250 million shares of Series Preferred Stock, \$.10 par value, in one or more series, with such designations, preferences, rights, qualifications, limitations and restrictions as the Board of Directors may determine.

We are authorized to issue up to 4.25 billion shares of common stock.

On January 22, 2004, the Board of Directors authorized the repurchase of up to 80 million common shares terminating no later than the close of business on February 28, 2006. We repurchased 7.9 million and 9.5 million common shares during 2005 and 2004, respectively.

On January 19, 2006, the Board of Directors determined that no additional common shares may be purchased under the previously authorized program and gave authorization to repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2008. We repurchased approximately 50 million common shares under this authorization during 2006.

Note 14

Stock-Based Compensation

Effective January 1, 2006, we adopted SFAS No. 123(R) utilizing the modified prospective method. SFAS No. 123 (R) requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. Under the modified prospective method, the provisions of SFAS No. 123(R) apply to all awards granted or modified after the date of adoption. The impact to Verizon primarily resulted from Verizon Wireless, for which we recorded a \$42 million cumulative effect of accounting change, net of taxes and after minority interest, to recognize the effect of initially measuring the outstanding liability for awards granted to Domestic Wireless employees at fair value utilizing a Black-Scholes model.

Previously, effective January 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123 using the prospective method (as permitted under SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*) for all new awards granted, modified or settled after January 1, 2003.

Verizon Communications Long Term Incentive Plan

The Verizon Communications Long Term Incentive Plan (the "Plan"), permits the grant of nonqualified stock options, incentive stock options, restricted stock, restricted stock units, performance shares, performance share units and other awards. The maximum number of shares for awards is 200 million.

Restricted Stock Units

The Plan provides for grants of restricted stock units (RSUs) that vest at the end of the third year after the grant. The RSUs are classified as liability awards because the RSUs are paid in cash upon vesting. The RSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the performance of Verizon's stock.

The following table summarizes Verizon's Restricted Stock Unit activity.

	Units	Average Grant-Date Fair Value
(Shares in thousands)		Restricted Stock
		Weighted
Outstanding, January 1, 2004	-	\$ -
Granted	532	36.75
Cancelled/Forfeited	(7)	36.75
Outstanding, December 31, 2004	525	36.75
Granted	6,410	36.06
Cancelled/Forfeited	(66)	36.07
Outstanding, December 31, 2005	6,869	36.12
Granted	9,116	31.88

Cancelled/Forfeited	(392)		
	35.01		
Outstanding, December 31, 2006	15,593		
	33.67		

Performance Share Units

The Plan also provides for grants of performance share units (PSUs) that vest at the end of the third year after the grant. The 2006, 2005 and 2004 performance share units will be paid in cash upon vesting. The 2003 PSUs were paid out in February 2006 in Verizon shares.

The target award is determined at the beginning of the period and can increase (to a maximum 200% of the target) or decrease (to zero) based on a key performance measure, Total Shareholder Return (TSR). At the end of the period, the PSU payment is determined by comparing Verizon's TSR to the TSR of a predetermined peer group and the S&P 500 companies. All payments are subject to approval by the Board's Human Resources Committee. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the performance of Verizon's stock as well as Verizon's TSR relative to the peer group's TSR and S&P 500 TSR.

The following table summarizes Verizon's Performance Share Unit activity.

(Shares in thousands)	Performance Share		
Units		Weighted	
Average Grant-Date Fair Value			
Outstanding, January 1, 2004	4,219		
	\$ 38.54		
Granted	6,477		
	36.81		
Cancelled/Forfeited	(617)		
	37.40		
Outstanding, December 31, 2004	10,079		
	37.50		
Granted	9,300		
	36.13		
Cancelled/Forfeited	(288)		
	36.91		
Outstanding, December 31, 2005	19,091		
	36.84		
Granted	14,166		
	32.05		
Payments	(3,607)		
	38.54		
Cancelled/Forfeited	(1,227)		
	37.25		

Outstanding, December 31, 2006	28,423			
	34.22			

As of December 31, 2006, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately \$392 million and is expected to be recognized over the next two years.

MCI Restricted Stock Plan

MCI's Management Restricted Stock Plan (MRSP) provides for the granting of stock-based compensation to management. Following the acquisition by Verizon on January 6, 2006, awards outstanding under the MRSP were converted into Verizon common stock in accordance with the Merger Agreement. MCI has not issued new MRSPs since February 2005.

The following table summarizes MRSP's restricted stock activity.

(Shares in thousands)	Restricted			
Stock				
				Weighted Average
Grant-Date Fair Value				
Outstanding, January 1, 2006	-			
				\$ -
Acquisition by Verizon	3,456			
				30.75
Payments	(2,756)			
)
				30.75
Cancellations/Forfeitures	(53)			
)
				30.75
Outstanding, December 31, 2006	647			
				30.75

As of December 31, 2006, unrecognized compensation expense related to the unvested portion of the MRSP restricted stock was approximately \$9 million and is expected to be recognized over the next year.

Verizon Wireless Long-Term Incentive Plan

The 2000 Verizon Wireless Long-Term Incentive Plan (the "Wireless Plan") provides compensation opportunities to eligible employees and other participating affiliates of the Cellco Partnership, d.b.a. Verizon Wireless (the "Partnership"). The Wireless Plan provides rewards that are tied to the long-term performance of the Partnership. Under the Wireless Plan, VARs are granted to eligible employees. The aggregate number of VARs that may be issued under the Wireless Plan is approximately 343 million.

Cancelled/Forfeited	(6,003			
)			
	14.65			
Outstanding rights, December 31, 2004	160,661			
	15.63			
Granted	10			
	14.85			
Exercised	(47,964			
)			
	12.27			
Cancelled/Forfeited	(3,784			
)			
	15.17			
Outstanding rights, December 31, 2005	108,923			
	17.12			
Exercised	(7,448			
)			
	13.00			
Cancelled/Forfeited	(7,008			
)			
	23.25			
Outstanding rights, December 31, 2006	94,467			
	16.99			

As of December 31, 2006, unrecognized compensation expense related to the unvested portion of the VARs was approximately \$50 million and is expected to be recognized within one year.

Stock-Based Compensation Expense

After-tax compensation expense for stock based compensation related to RSUs, PSUs, MRSPs and VARs described above included in net income as reported was \$535 million, \$359 million and \$248 million for 2006, 2005 and 2004, respectively.

Stock Options

The Verizon Long Term Incentive Plan provides for grants of stock options to employees at an option price per share of 100% of the fair market value of Verizon Stock on the date of grant. Each grant has a 10 year life, vesting equally over a three year period, starting at the date of the grant. We have not granted new stock options since 2004.

We determined stock-option related employee compensation expense for the 2004 grant using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

	2004			
Dividend yield	4.2	%		
Expected volatility	31.3	%		
Risk-free interest rate	3.3	%		
Expected lives (in years)	6			
Weighted average value of options granted			\$ 7.61	

The following table summarizes Verizon's stock option activity.

(Shares in thousands)				
				Stock
Options				Weighted
Average Exercise Price				
Outstanding, January 1, 2004				280,58
1				\$
46.24				
Granted				17,413
				35.51
Exercised				(10,519
)
				28.89

1

47.26

2005

244,42

4

46.64

2006

225,06

7

46.69

The following table summarizes information about Verizon's stock options outstanding as of December 31, 2006:

		Stock Options Outstanding		Stock Options	
Exercisable					
Range of Exercise Prices	Shares (in thousands)	Weighted- Average Remaining Life	Weighted-Average		
Exercise Price		Shares (in thousands)	Weighted-Average Exercise Price		
\$ 20.00 - 29.99	73	3.4 years	\$ 28.50		73
	\$ 28.50				
30.00 - 39.99	44,874	5.5	36.36		40,577
	36.45				
40.00 - 49.99	96,154	3.7	43.92		96,154
	43.92				
50.00 - 59.99	87,687	3.1	54.40		87,687
	54.40				
60.00 - 69.99	576	2.8	60.93		576
	60.93				
Total	229,364		46.48		225,067
	46.69				

The weighted average remaining contractual term was 3.8 years for stock options outstanding and exercisable as of December 31, 2006. The total intrinsic value was approximately \$44 million and \$37 million for stock options outstanding and exercisable, respectively, as of December 31, 2006. The total intrinsic value for stock options exercised was \$10 million, \$6 million and \$97 million, during 2006, 2005 and 2004, respectively.

The amount of cash received from the exercise of stock options was approximately \$101 million, \$34 million and \$306 million for 2006, 2005 and 2004, respectively.

The after-tax compensation expense for stock options was \$28 million, \$53 million and \$50 million for 2006, 2005 and 2004, respectively. As of December 31, 2006, unrecognized compensation expense related to the unvested portion of stock options was approximately \$3 million.

Note 15

Employee Benefits

We maintain noncontributory defined benefit pension plans for many of our employees. The postretirement health care and life insurance plans for our retirees and their dependents are both contributory and noncontributory and include a limit on the company's share of cost for certain recent and future retirees. We also sponsor defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis. We use a measurement date of December 31 for our pension and postretirement health care and life insurance plans.

In September 2006, the FASB issued SFAS No. 158. SFAS No. 158 requires the recognition of a defined benefit postretirement plan's funded status as either an asset or liability on the balance sheet. SFAS No. 158 also requires the immediate recognition of the unrecognized actuarial gains and losses and prior service costs and credits that arise during the period as a component of other accumulated comprehensive income, net

of applicable income taxes. Additionally, the fair value of plan assets must be determined as of the company's year-end. We adopted SFAS No. 158 effective December 31, 2006 which resulted in a net decrease to shareowners' investment of \$6,883 million. This included a net increase in pension obligations of \$2,403 million, an increase in Other Postretirement Benefits Obligations of \$10,828 million and an increase in Other Employee Benefit Obligations of \$31 million, partially offset by a net decrease of \$1,205 million to reverse the Additional Minimum Pension Liability and an increase in deferred taxes of \$5,174 million. If we had recorded an Additional Minimum Pension Liability at December 31, 2006, it would have been \$396 million, (\$262 million after-tax).

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans.

As of June 30, 2006, Verizon management employees no longer earned pension benefits or earned service towards the company retiree medical subsidy. In addition, new management employees hired after December 31, 2005 are not eligible for pension benefits and managers with less than 13.5 years of service as of June 30, 2006 are not eligible for company-subsidized retiree healthcare or retiree life insurance benefits. Beginning July 1, 2006, management employees receive an increased company match on their savings plan contributions.

The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans.

Obligations and Funded Status

(dollars in millions)									
		Pension				Health			
Care and Life									
At December 31,		2006		2005		2006			
				2005					
Change in Benefit Obligation									

Beginning of year	\$ 35,540		\$ 35,479	\$		
26,783			\$ 26,181			
Service cost	581		675	356		
			358			
Interest cost	1,995		1,959	1,499		
			1,467			
Plan amendments	-		149	50		
			69			
Actuarial (gain) loss, net	(282)	)	327	152		
			403			
Benefits paid	(2,762)	)	(2,831))		
	(1,564)	)	(1,662))		
Termination benefits	47		11	14		
			1			
Acquisitions and divestitures, net	477		(194)	)	40	
			(34))		
Settlements	(1,437)	)	(35))	-	
			-			
End of year	\$ 34,159		\$ 35,540	\$		
27,330			\$ 26,783			
Change in Plan Assets						
Beginning of year	39,227		37,461	4,275		
			4,549			
Actual return on plan assets	5,536		4,136	493		
			348			
Company contributions	568		698	1,099		
			1,040			
Benefits paid	(2,762)	)	(2,831))		
	(1,564)	)	(1,662))		
Settlements	(1,437)	)	(35))	-	
			-			
Acquisitions and divestitures, net	377		(202))	-	
			-			
End of year	\$ 41,509		\$ 39,227	\$		
4,303			\$ 4,275			
Funded Status						
End of year	7,350		3,687			
	(23,027)	)	(22,508))		
Unrecognized						
Actuarial loss, net	-		4,685	-		
			7,056			
Prior service cost	-		1,018	-		

			4,339		
Net amount recognized	\$ 7,350		\$ 9,390	\$	
(23,027	)		\$ (11,113)	
Amounts recognized on the balance sheet					
Prepaid pension cost (in Other Assets)	\$ 12,058		\$ 12,704	\$ -	
			\$ -		
Other assets	-		458	-	
			-		
Employee benefit obligation	(4,708	)	(4,977	)	(23,027
	)		(11,113)	
Accumulated other comprehensive loss	-		1,205	-	
			-		
Net amount recognized	\$ 7,350		\$ 9,390	\$ (23,027	
	)		\$ (11,113)	
Amounts recognized in Accumulated Other Comprehensive Income					
Actuarial loss, net	\$ 1,428			\$ 6,799	
Prior service cost	975			4,029	
Total	\$ 2,403			\$ 10,828	
Estimated amounts to be amortized from Accumulated Other Comprehensive Income during 2007 fiscal year					
Actuarial (gain) loss, net	\$ 98			\$ 316	
Prior service cost	43			393	
Total	\$ 141			\$ 709	

Changes in benefit obligations were caused by factors including changes in actuarial assumptions, curtailments and settlements.

In 2005, as a result of changes in management retiree benefits, we recorded pretax expense of \$430 million for pension curtailments and pretax income of \$332 million for retiree medical curtailments (see Note 4 for additional information).

The accumulated benefit obligation for all defined benefit pension plans was \$32,724 million and \$34,232 million at December 31, 2006 and 2005, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

(dollars in millions)				
At December 31,				
			2006	
			2005	
Projected benefit obligation			\$	
11,495			\$	
11,567				
Accumulated benefit obligation			11,0	
72			11,1	
65				
Fair value of plan assets			8,28	
8			7,50	
0				

Net Periodic Cost

The following table displays the details of net periodic pension and other postretirement costs:

(dollars in millions)									
		Pension				Health Care and Life			
Years Ended December 31,	2006		2005		2004	2006			
		2005		2004					
Service cost	\$ 581		\$ 675		\$ 666	\$ 356		\$	
358			\$ 269						
Interest cost	1,995		1,959		2,144	1,499			
	1,467		1,422						
Expected return on plan assets	(3,173)	)	(3,231)	)	(3,565)	(328))		
	(349)	)	(409)))		
Amortization of transition asset	-		-		(4)	-		-	

Amortization of prior service cost	44	42	57	360		
	290	236				
Actuarial loss, net	182	124	45	290		
	258	169				
Net periodic benefit (income) cost	(371)	(431)	(657)	2,177		
	2,024	1,687				
Termination benefits	47	11	1	14	1	
		-				
Settlement loss	56	80	805	-	-	
		-				
Curtailment (gain) loss and other, net	-	436	-	-		
	(332)	-				
Subtotal	103	527	806	14		
	(331)	-				
Total cost	\$ (268)	\$ 96	\$ 149	\$ 2,191	\$	
1,693		\$ 1,687				

Termination benefits and settlement and curtailment losses of \$94 million pertaining to the sale of Hawaii operations in 2005 were recorded in the consolidated statements of income in Sales of Businesses, Net.

Additional Information

As a result of the adoption of SFAS No. 158, we no longer record an additional minimum pension liability. In prior years, as a result of changes in interest rates and changes in investment returns, an adjustment to the additional minimum pension liability was required for a number of plans, as indicated below. The adjustment in the liability was recorded as a charge or (credit) to Accumulated Other Comprehensive Loss, net of tax, in shareowners' investment in the consolidated balance sheets.

--	--	--	--	--	--	--

(dollars in millions)						
Years Ended December 31,		2006				
		2005				
		2004				
Increase (decrease) in minimum liability included in other comprehensive income, net of tax		\$ (788)				
		\$ (51)		\$		

332

Assumptions

The weighted-average assumptions used in determining benefit obligations follow:

--	--	--	--	--	--	--

		Pension				
--	--	---------	--	--	--	--

Health Care and Life

	5.00				
Year the rate reaches level it is assumed to remain thereafter		2011			
		2010			
		2009			

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

--	--	--	--	--

(dollars in millions)				
One-Percentage-Point		Increase		
		Decrease		
Effect on 2006 service and interest cost		\$		
282		\$		
(223)		
Effect on postretirement benefit obligation as of December 31, 2006		3,339		
		(2,731		
)		

Plan Assets

Pension Plans

The weighted-average asset allocations for the pension plans by asset category follow:

--	--	--	--	--

At December 31,				
		2006		
		2005		

Asset Category				
-----------------------	--	--	--	--

Equity securities				
	62.5			
	%			
	63.4			
	%			
Debt securities				
	16.3			
	17.5			
Real estate				
	4.5			
	3.2			
Other				
	16.7			
	15.9			
Total				
	100.			
0	%			
	100.			
0	%			

Equity securities include Verizon common stock of \$95 million and \$72 million at December 31, 2006 and 2005, respectively. Other assets include cash and cash equivalents (primarily held for the payment of benefits), private equity and investments in absolute return strategies.

Health Care and Life Plans

The weighted-average asset allocations for the other postretirement benefit plans by asset category follow:

--	--	--	--

At December 31,			
-----------------	--	--	--

2006

2005

Asset Category			
-----------------------	--	--	--

Equity securities			
-------------------	--	--	--

72.1

%

71.9

%

Debt securities			
-----------------	--	--	--

20.4

22.1

Real estate			
-------------	--	--	--

0.1

0.1

Other			
-------	--	--	--

7.4

Total			
0	100.		
	%		
0	100.		
	%		

Equity securities include Verizon common stock of \$4 million at December 31, 2005. There was no Verizon common stock held at the end of 2006.

The portfolio strategy emphasizes a long-term equity orientation, significant global diversification, the use of both public and private investments and professional financial and operational risk controls. Assets are allocated according to a long-term policy neutral position and held within a relatively narrow and pre-determined range. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors.

Cash Flows

In 2006, we contributed \$451 million to our qualified pension trusts, \$117 million to our nonqualified pension plans and \$1,099 million to our other postretirement benefit plans. We estimate required qualified pension trust contributions for 2007 to be approximately \$510 million. We also anticipate \$120 million in contributions to our non-qualified pension plans and \$1,210 million to our other postretirement benefit plans in 2007.

Estimated Future Benefit Payments

The benefit payments to retirees, which reflect expected future service, are expected to be paid as follows:

(dollars in millions)					
		Pension Benefits		Health Care and Life	
	Prior to Medicare Prescription Drug Subsidy	Expected Medicare Prescription Drug Subsidy			
2007		\$ 2,491		\$ 1,717	
		\$ 91			
2008		2,552		1,806	
		97			
2009		2,749		1,869	
		102			
2010		3,042		1,936	
		108			
2011		3,503		1,991	
		112			

2012 - 2016		16,472		9,983		
-------------	--	--------	--	-------	--	--

589

Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP), only one plan currently has unallocated shares. Under this plan, we match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from this ESOP. Common stock is allocated from the leveraged ESOP trust based on the proportion of principal and interest paid on ESOP debt in a year to the remaining principal and interest due over the term of the debt. The final debt service payments and related share allocations for two of our leveraged ESOPs were made in 2004. At December 31, 2006, the number of unallocated and allocated shares of common stock was 5 million and 77 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

Total savings plan costs were \$669 million, \$499 million, and \$501 million in 2006, 2005 and 2004 respectively. A portion of these costs were funded through a leveraged ESOP. We recognize leveraged ESOP costs based on the shares allocated method.

Leveraged ESOP costs and trust activity consist of the following:

--	--	--	--	--	--	--

(dollars in millions)

Years Ended December 31,		2006				
--------------------------	--	------	--	--	--	--

2005

2004

Compensation		\$ 24				
--------------	--	-------	--	--	--	--

\$ 39

\$

159

Interest incurred		-				
-------------------	--	---	--	--	--	--

-

12

Dividends		(9)				
-----------	--	------	--	--	--	--

(16)

(16)

Net leveraged ESOP cost		\$ 15				
-------------------------	--	-------	--	--	--	--

\$ 23

\$

155

Severance Benefits

The following table provides an analysis of our severance liability recorded in accordance with SFAS Nos. 112 and 146:

--	--	--	--	--	--	--

(dollars in millions)

Year	Beginning of Year	Charged to Expense	Payments
	Other	End of Year	
2004	\$ 2,150	\$(40)	\$(1,356)
	\$(1)	\$753	
2005	753	99	(251)
	(5)	596	
2006	596	343	(383)
	88	644	

The remaining severance liability includes future contractual payments to employees separated as of December 31, 2006. The 2006 expense includes charges for the involuntary separation of 4,100 employees (see Note 4).

Note 16

Income Taxes

The components of Income Before Provision for Income Taxes, Discontinued Operations and Cumulative Effect of Accounting Change are as follows:

Years Ended December 31,	2006	2005	2004
(dollars in millions)			
Domestic	\$ 6,682	\$ 7,496	\$ 6,186
Foreign	1,472	952	1,791
	\$ 8,154	\$ 8,448	\$ 7,977

The components of the provision for income taxes from continuing operations are as follows:

Years Ended December 31,	2006	2005	2004
(dollars in millions)			
Current			
Federal	\$ 2,364	\$ 2,772	\$ (162)

)					
Foreign		141		81			
				249			
State and local		420		661			
				271			
		2,925		3,514			
				358			
Deferred							
Federal		(9)	)	(844)			
		)		1,580			
Foreign		(45)	)	(55)			
		)		53			
State and local		(190)	)	(187)			
		)		95			
		(244))				
		(1,086)		1,728			
Investment tax credits		(7)	)	(7)			
		)		(8)			
Total income tax expense		\$ 2,674		\$			
2,421				\$ 2,078			

The following table shows the principal reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

Years Ended December 31,							
				2006			
				2005			
				2004			
Statutory federal income tax rate				35.0			
				%			
				35.0	%		

(dollars in millions)				
At December 31,		2006		
		2005		
Employee benefits		\$ (7,788		
)	\$		
(1,778)			
Loss on investments		(124		
	)	(369		
)			
Former MCI tax loss carry forwards		(2,026		
)	-		
Uncollectible accounts receivable		(455		
	)	(375		
)			
		(10,393		
	)	(2,522		
)			
Valuation allowance		2,600		
		815		
Deferred tax assets		(7,793		
	)	(1,707		
)			
Former MCI intercompany accounts receivable basis difference		2,003		
		-		
Depreciation		7,617		
		9,676		
Leasing activity		2,638		
		3,001		
Wireless joint venture including wireless licenses		12,177		
		11,786		
Other - net		782		
		(370		
)			
Deferred tax liabilities		25,217		
		24,093		

Net deferred tax liability	\$ 17,424			
	\$			
22,386				
Net long-term deferred tax liabilities	\$ 16,270			
	\$			
22,831				
Plus net current deferred tax liabilities (in Other current liabilities)	1,154			
	-			
Less net current deferred tax assets (in Prepaid expenses and other)	-			
	445			
Net deferred tax liability	\$ 17,424			
	\$			
22,386				

At December 31, 2006, employee benefits deferred tax assets include \$5,174 million as a result of the adoption of SFAS No. 158 (see Note 15).

At December 31, 2006, undistributed earnings of our foreign subsidiaries amounted to approximately \$3 billion. Deferred income taxes are not provided on these earnings as it is intended that the earnings are indefinitely invested outside of the U.S. It is not practical to estimate the amount of taxes that might be payable upon the remittance of such earnings.

The valuation allowance primarily represents the tax benefits of certain foreign and state net operating loss carry forwards, capital loss carry forwards and other deferred tax assets which may expire without being utilized. During 2006, the valuation allowance increased \$1,785 million. This increase was primarily due to the addition of former MCI valuation allowances. This increase was offset by valuation allowance reversals relating to utilizing prior year investment losses to offset the capital gains realized on the sale of various businesses including Verizon Dominicana.

Former MCI tax loss carry forwards include federal, state and foreign net operating loss tax carry forwards as well as capital loss tax carry forwards. As a result of the MCI Bankruptcy and the application of the related tax attribute reduction rules, MCI reduced the tax basis in intercompany accounts receivables. This reduction in tax basis results in a deferred tax liability as reflected above.

Note 17

Segment Information

Reportable Segments

On November 17, 2006, we completed the spin-off of our U.S. print and Internet yellow pages directories to our shareowners, which was included in the Information Services segment. The spin-off resulted in a new company, named Idearc Inc. In addition, we reached definitive agreements to sell our interests in TELPRI and Verizon Dominicana, each of which were included in the International segment. The operations of our U.S. print and Internet yellow pages directories business, Verizon Dominicana and TELPRI are reported as discontinued operations and assets held for sale. Accordingly we have two reportable segments, which we operate and manage

as strategic business units and organize by products and services. We measure and evaluate our reportable segments based on segment income. Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses such as our investments in unconsolidated businesses, primarily Omnitel and CANTV, lease financing, and asset impairments and expenses that are not allocated in assessing segment performance due to their non-recurring nature. These adjustments include transactions that the chief operating decision makers exclude in assessing business unit performance due primarily to their non-recurring and/or non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results, since these items are included in the chief operating decision makers' assessment of unit performance.

Our segments and their principal activities consist of the following:

Segment	Description
Wireline	Wireline provides communications services including voice, broadband video and data, next generation IP network services, network access, long distance and other services to consumers, carriers, business and government customers both domestically and globally in 150 countries.
Domestic Wireless	Domestic wireless products and services include wireless voice and data products and other value added services and equipment sales across the United States.

The following table provides operating financial information for our two reportable segments:

	Wireline	Domestic Wireless	Total Segments
(dollars in millions)			
2006			
External revenues	\$ 49,621	\$ 37,930	\$ 87,551
Intersegment revenues	1,173	113	1,286
Total operating revenues	50,794	38,043	88,837
Cost of services and sales	24,522	11,491	36,013
Selling, general & administrative expense	12,116	12,039	24,155
Depreciation & amortization expense	9,590	4,913	14,503
Total operating expenses	46,228	28,443	74,671
Operating income	4,566	9,600	14,166
Equity in earnings of unconsolidated businesses	-	19	19

Other income and (expense), net	250	4			
	254				
Interest expense	(2,062)	(452)			
	(2,514)				
Minority interest	-	(4,038)			
	(4,038)				
Provision for income taxes	(1,120)	(2,157)			
	(3,277)				
Segment income	\$ 1,634	\$ 2,976			
	\$ 4,610				
Assets	\$ 92,274	\$ 81,989			
	\$ 174,263				
Investments in unconsolidated businesses	28	87			
	115				
Plant, property and equipment, net	57,031	24,659			
	81,690				
Capital expenditures	10,259	6,618			
	16,877				
(dollars in millions)					
2005	Wireline	Domestic Wireless			
	Total Segments				
External revenues	\$ 36,628	\$ 32,219			
	\$ 68,847				
Intersegment revenues	988	82			
	1,070				
Total operating revenues	37,616	32,301			
	69,917				
Cost of services and sales	15,604	9,393			
	24,997				
Selling, general & administrative expense	8,419	10,768			
		19,187			
Depreciation & amortization expense	8,801	4,760			
	13,561				
Total operating expenses	32,824	24,921			
	57,745				
Operating income	4,792	7,380			
	12,172				
Equity in earnings of unconsolidated businesses	-	27			
	27				
Other income and (expense), net	79	6			

Interest expense	(1,701)	(601)			
	(2,302)				
Minority interest	-	(2,995)			
	(2,995)				
Provision for income taxes	(1,264)	(1,598)			
	(2,862)				
Segment income	\$ 1,906	\$ 2,219			
	\$ 4,125				
Assets	\$ 75,188	\$ 76,729			
	\$ 151,917				
Investments in unconsolidated businesses	2	154			
	156				
Plant, property and equipment, net	49,618	22,790			
	72,408				
Capital expenditures	8,267	6,484			
	14,751				
(dollars in millions)					
2004	Wireline	Domestic Wireless			
	Total Segments				
External revenues	\$ 37,160	\$ 27,586			
	\$ 64,746				
Intersegment revenues	861	76			
	937				
Total operating revenues	38,021	27,662			
	65,683				
Cost of services and sales	14,830	7,747			
	22,577				
Selling, general & administrative expense	8,621	9,591			
		18,212			
Depreciation & amortization expense	8,910	4,486			
	13,396				
Total operating expenses	32,361	21,824			
	54,185				
Operating income	5,660	5,838			
	11,498				
Equity in earnings of unconsolidated businesses	-	45			
	45				
Other income and (expense), net	100	11			
	111				
Interest expense	(1,602)	(661)			

	(2,263)			
Minority interest	-		(2,323)	
	(2,323)			
Provision for income taxes	(1,506	)	(1,265)	
	(2,771)			
Segment income	\$ 2,652		\$ 1,645		
	\$ 4,297				
Assets	\$ 78,824		\$ 68,027		
	\$ 146,851				
Investments in unconsolidated businesses	3		148		
	151				
Plant, property and equipment, net	50,608		20,516		
	71,124				
Capital expenditures	7,118		5,633		
	12,751				

Reconciliation To Consolidated Financial Information

A reconciliation of the results for the operating segments to the applicable line items in the consolidated financial statements is as follows:

(dollars in millions)					
	2006		2005		
	2004				
Operating Revenues					
Total reportable segments	\$ 88,837		\$ 69,917		
			\$ 65,683		
Hawaii operations	-		180		
	529				
Corporate, eliminations and other	(693	)	(579)	
	)		(461)	
Consolidated operating revenues - reported	\$ 88,144		\$ 69,518		
			\$ 65,751		
Operating Expenses					
Total reportable segments	\$ 74,671		\$ 57,745		
			\$ 54,185		

Merger integration costs (see Note 4)	232	-		
	-			
Severance, pension and benefit charges (see Note 4)	425	157		
	805			
Verizon Center relocation, net (see Note 4)	184	(18)		
	-			
Former MCI exposure, lease impairment and other special items (see Note 4)	-	125		
	(91)			
Hawaii operations	-	118		
	375			
Sales of businesses and investments, net (see Notes 3 and 5)	-	(530		
	)	100		
Corporate, eliminations and other	(741	) (660		
	)	(493)		
Consolidated operating expenses - reported	\$ 74,771	\$ 56,937		
		\$ 54,881		

(dollars in millions)

	2006	2005		
	2004			
Net Income				
Segment income - reportable segments	\$ 4,610	\$ 4,125		
		\$ 4,297		
Debt extinguishment costs (see Note 11)	(16) -		
	-			
Merger integration costs (see Note 4)	(146) -		
	-			
Sales of businesses and investments, net (see Notes 3 and 5)	(541	) 336		
	1,059			
Idearc spin-off costs (see Note 4)	(101) -		
	-			
Severance, pension and benefit charges (see Note 4)	(258	) (95)		
	(499)		
Verizon Center relocation, net (see Note 4)	(118	) 8		
	-			
Former MCI exposure, lease impairment and other special items (see Note 4)	-	(133		
	)	2		
Tax benefits (see Note 4)	-	336		
	234			
Tax provision on repatriated earnings (see Note 4)	-	(206		

)	-			
Income from discontinued operations, net of tax (see Note 3)	1,398		1,370		
			1,423		
Cumulative effect of accounting change (see Note 1)	(42)	-		
			-		
Corporate and other	1,411		1,656		
			1,315		
Consolidated net income - reported	\$ 6,197		\$ 7,397		
			\$ 7,831		
Assets					
Total reportable segments	\$ 174,263		\$ 151,917		
			\$ 146,851		
Reconciling items	14,541		16,213		
			19,107		
Consolidated assets	\$ 188,804		\$ 168,130		
			\$ 165,958		

Financial information for Wireline excludes the effects of Hawaii access lines and directory operations sold in 2005.

We generally account for intersegment sales of products and services and asset transfers at current market prices. We are not dependent on any single customer.

Geographic Areas

Our foreign investments are located principally in the Americas and Europe. Domestic and foreign operating revenues are based on the location of customers. Long-lived assets consist of plant, property and equipment (net of accumulated depreciation) and investments in unconsolidated businesses. The table below presents financial information by major geographic area:

(dollars in millions)					
Years Ended December 31,		2006			
		2005			
		2004			
Domestic					

Operating revenues	\$ 84,693				
	\$ 69,327				
	\$ 65,659				
Long-lived assets	82,277				
	74,813				
	72,488				

Foreign

Operating revenues	3,451				
	191				
	92				
Long-lived assets	4,947				
	2,776				
	4,973				

Consolidated

Operating revenues	88,144				
	69,518				
	65,751				
Long-lived assets	87,224				
	77,589				
	77,461				

Note 18

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting shareowners' investment that, under GAAP, are excluded from net income.

Changes in the components of other comprehensive income (loss), net of income tax expense (benefit), are as follows:

--	--	--	--	--	--

(dollars in millions)

Years Ended December 31,	2006				
	2005				
	2004				

Foreign Currency Translation Adjustments	\$ 1,196				
	\$ (755				
	) \$ 548				

Unrealized Gains (Losses) on Net Investment Hedges					
---	--	--	--	--	--

Unrealized gains (losses), net of taxes of \$-, \$1 and \$(48)	-				
	2				
	(58)				

Less reclassification adjustments for losses realized in net income, net of taxes of \$-, \$- and \$(48)	-				
	-				
	(58)				

Net unrealized gains on net investment hedges	-				
	2				
	-				

Unrealized Derivative Gains (Losses) on Cash Flow Hedges					
---	--	--	--	--	--

Unrealized gains (losses), net of taxes of \$(1), \$- and \$(2)	11				
	4				
	(9)				

Less reclassification adjustments for (losses) realized in net income, net of taxes of \$(1), \$(2) and \$(2)	(3				
	) (6				
	) (26				
)				

Net unrealized derivative gains on cash flow hedges	14				
	10				
	17				

Unrealized Gains (Losses) on Marketable Securities					
---	--	--	--	--	--

Unrealized gains, net of taxes of \$30, \$10 and \$4	79				
	4				
	8				

Less reclassification adjustments for gains realized in net income, net of taxes of \$13, \$14 and \$1	25								
	25								
	1								
Net unrealized gains (losses) on marketable securities	54								
	(21)								
	7								
Minimum Pension Liability Adjustment , net of taxes of \$417, \$37 and \$(185)	788								
	51								
	(332)								
)								
Defined benefit pension and postretirement plans - SFAS No. 158 adoption , net of taxes of \$(5,591)	(7,671)								
)								
	-								
	-								
Other , net of taxes of \$(159), \$(20) and \$(53)	(128)								
)								
	(17)								
)								
	(43)								
)								
Other Comprehensive Income (Loss)	\$ (5,747)								
)								
	\$ (730)								
)								
	\$ 197								

The foreign currency translation adjustment in 2006 represents the realization of the cumulative foreign currency translation loss of approximately \$800 million in connection with the sale of our consolidated interest in Verizon Dominicana (see Note 3), as well as unrealized

gains from the appreciation of the functional currency on our investment in Vodafone Omnitel. The minimum pension liability adjustment in 2006 represents the adoption of SFAS No. 158.

The foreign currency translation adjustment in 2005 represents unrealized losses from the decline in the functional currencies of our investments in Vodafone Omnitel, Verizon Dominicana and CANTV. The foreign currency translation adjustment in 2004 represents unrealized gains from the appreciation of the functional currencies at Verizon Dominicana and our investment in Vodafone Omnitel as well as the realization of the cumulative foreign currency translation loss in connection with the sale of our 20.5% interest in TELUS (see Note 4), partially offset by unrealized losses from the decline in the functional currency on our investment in CANTV.

During 2005, we entered into zero cost euro collars to hedge a portion of our net investment in Vodafone Omnitel. As of December 31, 2005, our positions in the zero cost euro collars have been settled. During 2004, we entered into foreign currency forward contracts to hedge our net investment in Verizon Information Services Canada and TELUS (see Note 3). In connection with the sales of these interests in the fourth quarter of 2004, the unrealized losses on these net investment hedges were realized in net income along with the corresponding foreign currency translation balance.

As discussed in Note 15, we adopted SFAS No. 158 effective December 31, 2006, which resulted in a net decrease

to shareowners' investment of \$6,883 million.

The changes in the minimum pension liability in 2005 and 2004 were required by accounting rules for certain pension plans based on their funded status (see Note 15). In connection with our adoption of SFAS No. 158 on December 31, 2006, we no longer record a minimum pension liability adjustment as a discrete component of Accumulated Other Comprehensive Loss.

The components of Accumulated Other Comprehensive Loss are as follows:

(dollars in millions)			
At December 31,	2006		
	2005		
Foreign currency translation adjustments	\$		
329			
	\$		
(867)		
Unrealized gains on net investment hedges	2		
	2		
Unrealized derivative losses on cash flow hedges	(13		
)		
	(27		
)		
Unrealized gains on marketable securities	64		
	10		
Minimum pension liability	-		
	(788		
)		
Defined benefit pension and postretirement plans - SFAS 158 adoption	(7,671		
)		
	-		
Other	(241		
)		
	(113		
)		

millions)

At December 31,	2006		
	2005		

<i>Accounts Payable and Accrued Liabilities</i>			
---	--	--	--

--	--	--	--

Accounts payable	\$		
------------------	----	--	--

4,392	\$		
--------------	----	--	--

2,620			
-------	--	--	--

Accrued expenses			
------------------	--	--	--

2,982

2,891

Accrued vacation, salaries and wages			
--------------------------------------	--	--	--

3,575

3,179

Interest payable	614		
------------------	------------	--	--

573

Accrued taxes			
---------------	--	--	--

2,757

2,484

	\$		
--	----	--	--

14,320	\$		
---------------	----	--	--

11,747			
--------	--	--	--

<i>Other Current Liabilities</i>			
----------------------------------	--	--	--

--	--	--	--

Advance billings and customer deposits	\$		
--	----	--	--

2,226	\$		
--------------	----	--	--

1,964			
-------	--	--	--

Dividends payable			
-------------------	--	--	--

1,199

1,137

Other

4,666

2,294

\$

8,091

\$

5,395

Cash Flow Information

--	--	--	--	--	--

	(dollars in millions)				
--	-----------------------	--	--	--	--

Years Ended December 31,	2006				
--------------------------	------	--	--	--	--

2005

2004

Cash Paid

Income taxes, net of amounts refunded	\$ 3,299				
---------------------------------------	----------	--	--	--	--

\$ 4,189

\$ 152

Interest, net of amounts capitalized	2,103				
--------------------------------------	-------	--	--	--	--

2,025

2,226

Supplemental Investing and Financing Transactions

Cash acquired in business combination	2,361				
---------------------------------------	-------	--	--	--	--

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Assets acquired in business combinations	18,511				
--	--------	--	--	--	--

635

8

Liabilities assumed in business combinations	7,813				
--	-------	--	--	--	--

35

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Debt assumed in business combinations	6,169				
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Shares issued to Price to acquire limited partnership interest in VZ East (Note 2)	1,007			
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Note 20**Guarantees of Operating Subsidiary Debt**

Verizon has guaranteed the obligations of two wholly-owned operating subsidiaries: \$480 million 7% debentures series B, due 2042 issued by Verizon New England Inc. and \$300 million 7% debentures series F issued by Verizon South Inc. due 2041. These guarantees are full and unconditional and would require Verizon to make scheduled payments immediately if either of the two subsidiaries failed to do so. Both of these securities were issued in denominations of \$25 and were sold primarily to retail investors and are listed on the New York Stock Exchange. SEC rules permit us to include condensed consolidating financial information for these two subsidiaries in our periodic SEC reports rather than filing separate subsidiary periodic SEC reports.

Below is the condensed consolidating financial information. Verizon New England and Verizon South are presented in separate columns. The column labeled Parent represents Verizon's investments in all of its subsidiaries under the equity method and the Other column represents all other subsidiaries of Verizon on a combined basis. The Adjustments column reflects intercompany eliminations.

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	(dollars in millions)				
Condensed Consolidating Statements of Income Year Ended December 31, 2006	Verizon South	Other	Parent	Verizon New England	Total
Operating revenues	\$ -	\$ 3,852	\$ 858	\$ 84,208	\$
(774)		\$ 88,144			
Operating expenses	164	3,685	634	71,062	(774
)		74,771			
Operating Income (Loss)	(164	) 167	224	13,146	-
		13,373			
Equity in earnings of unconsolidated businesses		6,011	14	-	(708
)		(4,544	) 773		
Other income and (expense), net	1,579	11	14	283	(1,492
)		395			
Interest expense	(1,185	) (174	) (54	) (961	) 25
		(2,349)		
Minority interest	-	-	-	(4,038) -
		(4,038)		
Income (loss) before provision for income taxes, discontinued operations and cumulative effect of accounting change	6,241	18	184	7,722	(6,011

(dollars in millions)

Condensed Consolidating Statements of Income Year Ended December 31, 2004		Parent	Verizon New England	Verizon South	
	Other	Adjustments	Total		
Operating revenues	\$ -	\$ 3,955	\$ 934	\$ 61,224	\$ (362)
)	\$ 65,751				
Operating expenses	260	3,664	717	50,602	(362)
)	54,881				
Operating Income (Loss)	(260)	291	217	10,622	-
	10,870				
Equity in earnings of unconsolidated businesses	7,714	59	-	-	1,437
	(7,520)	1,690			
Other income and (expense), net	171	8	7	98	
	(202)	82			
Interest expense	(20)	(165)	(63)	(2,096)	8
	(2,336)				
Minority interest	-	-	-	(2,329)	-
	(2,329)				
Income before provision for income taxes and discontinued operations				7,605	193
	161	7,732	(7,714)	7,977	
Income tax benefit (provision)		229	(50)	(34)	(2,223)
		-	(2,078)		
Income Before Discontinued Operations	7,834	143	127	5,509	
	(7,714)	5,899			
Income (loss) on discontinued operations, net of tax			(3)	-	-
	1,935	-	1,932		
Net Income	\$ 7,831	\$ 143	\$ 127	\$ 7,444	\$ (7,714)
)	\$ 7,831				

(dollars in millions)

Condensed Consolidating Balance Sheets At December 31, 2006		Parent	Verizon New England	Verizon South	
	Other	Adjustments	Total		
Cash	\$ -	\$ -	\$ -	\$ 3,219	\$ -
	\$ 3,219				
Short-term investments	-	215	33	2,186	-
	2,434				
Accounts receivable, net	4	705	104	10,999	(921)
)	10,891				
Other current assets	32,680	134	28	5,830	(32,678)
)	5,994				
Total current assets	32,684	1,054	165	22,234	(33,599)
)	22,538				
Plant, property and equipment, net	1	6,165	1,120	75,070	
	-	82,356			
Investments in unconsolidated businesses	44,048	116	-	7,488	

		(46,784	)	4,868			
Other assets	5,045	288	389	73,550	(230		
)		79,042					
Total Assets	\$ 81,778	\$ 7,623	\$ 1,674	\$ 178,342	\$ (80,613		
)		\$ 188,804					
Debt maturing within one year		\$ 6,735	\$ 333	\$ 232	\$ 33,302		
)		\$ (32,887	)	\$ 7,715			
Other current liabilities	2,354	1,032	182	21,709	(712		
)		24,565					
Total current liabilities	9,089	1,365	414	55,011	(33,599		
)		32,280					
Long-term debt	11,392	2,573	417	14,494	(230		
)		28,646					
Employee benefit obligations		12,419	1,625	259	16,476		
)		-	30,779				
Deferred income taxes	337	560	203	15,170	-		
)		16,270					
Other liabilities	6	111	19	3,821	-		
)		3,957					
Minority interest	-	-	-	28,337	-		
)		28,337					
Total shareowners' investment		48,535	1,389	362	45,033		
)		(46,784	)	48,535			
Total Liabilities and Shareowners' Investment	\$ 81,778	\$ 7,623	\$ 1,674	\$ 178,342			
)		\$ (80,613	)	\$ 188,804			

(dollars in millions)

Condensed Consolidating Balance Sheets	At December 31, 2005	Parent	Verizon New England	Verizon South
		Other	Adjustments	Total
Cash	\$ -	\$ -	\$ -	\$ 760
		\$ 760		
Short-term investments	-	216	32	1,898
	2,146			
Accounts receivable, net	20	910	142	8,792
)		8,534		(1,330
Other current assets	9,365	166	185	7,661
)		7,880		(9,497
Total current assets	9,385	1,292	359	19,111
)		19,320		(10,827
Plant, property and equipment, net		1	6,146	1,158
		-	72,987	
Investments in unconsolidated businesses		32,593	116	-
				10,015

		(38,122	)	4,602			
Other assets	532	472	390	70,057	(230)		
	71,221						
Total Assets	\$ 42,511	\$ 8,026	\$ 1,907	\$ 164,865	\$ (49,179		
	)	\$ 168,130					
Debt maturing within one year		\$ 22	\$ 471	\$ -	\$ 15,999		
		\$ (9,804	)	\$ 6,688			
Other current liabilities	2,511	1,049	176	17,299	(1,023		
	)	20,012					
Total current liabilities	2,533	1,520	176	33,298	(10,827		
	)	26,700					
Long-term debt	92	2,702	901	28,104	(230)		
	31,569						
Employee benefit obligations		205	1,892	254	15,342		
		-	17,693				
Deferred income taxes	-	537	220	22,074	-		
	22,831						
Other liabilities	1	146	27	3,050	-		
	3,224						
Minority interest	-	-	-	26,433	-		
	26,433						
Total shareowners' investment		39,680	1,229	329	36,564		
		(38,122	)	39,680			
Total Liabilities and Shareowners' Investment	\$ 42,511	\$ 8,026	\$ 1,907	\$ 164,865			
		\$ (49,179	)	\$ 168,130			

(dollars in millions)

Condensed Consolidating Statements of Cash Flows	Year Ended	December 31, 2006	Parent		Verizon New England		Verizon South	
			Other	Adjustments	Total			
Net cash from operating activities			\$ 5,919	\$ 1,211	\$ 311		\$ 22,260	
			\$ (5,595	)	\$ 24,106			
Net cash from investing activities			(779	)	(919	)	15	(14,032
			)	99	(15,616)		
Net cash from financing activities			(5,140	)	(292	)	(326	(5,769
			)	5,496	(6,031)		
Net Increase in Cash			\$ -	\$ -	\$ -	\$ 2,459	\$ -	
			\$ 2,459					

(dollars in millions)

Condensed Consolidating Statements of Cash Flows	Year Ended	December 31, 2005	Parent		Verizon New England		Verizon South	
			Other	Adjustments	Total			
Net cash from operating activities			\$ 7,605	\$ 831	\$ 284		\$ 20,242	
			\$ (6,937	)	\$ 22,025			

Net cash from investing activities	(913	)	(784	)	(221	)	(16,343)
	(231	)	(18,492)				
Net cash from financing activities	(6,692	)	(47	)	(63	)	(5,400)
	7,168	)	(5,034)				
Net Decrease in Cash	\$ -	)	\$ -	)	\$ (1,501)	\$ -)
	\$ (1,501)						

(dollars in millions)

Condensed Consolidating Statements of Cash Flows Year Ended December 31, 2004		Parent	Verizon New England	Verizon South				
	Other	Adjustments	Total					
Net cash from operating activities	\$ 6,650	\$ 1,219	\$ 282	\$ 20,104				
	\$ (6,464	) \$ 21,791						
Net cash from investing activities	-	(655	)	(75	)	(9,559)	
	(54	)	(10,343)				
Net cash from financing activities	(6,650	)	(564	)	(207	)	(8,953)
	6,518	)	(9,856)				
Net Increase in Cash	\$ -	)	\$ -	)	\$ 1,592)	\$ -)
	\$ 1,592)						

Note 21

Commitments and Contingencies

Several state and federal regulatory proceedings may require our telephone operations to pay penalties or to refund to customers a portion of the revenues collected in the current and prior periods. There are also various legal actions pending to which we are a party and claims which, if asserted, may lead to other legal actions. We have established reserves for specific liabilities in connection with regulatory and legal actions, including environmental matters, that we currently deem to be probable and estimable. We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods, including the Hicksville matters described below, will have a material effect on our financial condition, but it could have a material effect on our results of operations.

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005 the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments may also be made based upon actual conditions discovered during the remediation at any of the sites requiring remediation.

There are also litigation matters associated with the Hicksville site primarily involving personal injury claims in connection with alleged emissions arising from operations in the 1950s and 1960s at the Hicksville site. These matters are in various stages, and no trial date has been set.

In connection with the execution of agreements for the sales of businesses and investments, Verizon ordinarily provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as financial losses.

Subsequent to the sale of Verizon Information Services Canada (see Note 3), we continue to provide a guarantee to publish directories, which was issued when the directory business was purchased in 2001 and had a 30-year term (before extensions). The preexisting guarantee continues, without modification, following the sale of Verizon Information Services Canada. As a result of the Idearc spin-off, we continue to be responsible for this guarantee. The possible financial impact of the guarantee, which is not expected to be adverse, cannot be reasonably estimated since a variety of the potential outcomes available under the guarantee result in costs and revenues or benefits that may offset. In addition, performance under the guarantee is not likely.

As of December 31, 2006, letters of credit totaling \$223 million had been executed in the normal course of business, which support several financing arrangements and payment obligations to third parties.

We have several commitments primarily to purchase network services, equipment and software from a variety of suppliers totaling \$812 million. Of this total amount, \$566 million, \$164 million, \$53 million, \$11 million, \$5 million and \$13 million are expected to be purchased in 2007, 2008, 2009, 2010, 2011 and thereafter, respectively.

Note 22									
Quarterly Financial Information (Unaudited)									
(dollars in millions, except per share amounts)									
									Income Before Discontinued Operations
Quarter Ended	Operating Revenues		Operating Income		Amount				
	Per Share- Basic	Per Share- Diluted	Net Income						
2006									
March 31	\$ 21,221	\$ 3,175	\$ 1,282	\$.44					
	\$.44	\$ 1,632							
June 30	21,876	3,217	1,263	.43					
	.43	1,611							
September 30	22,449	3,537	1,545	.53					
	.53	1,922							
December 31	22,598	3,444	1,390	.48					
	.48	1,032							
2005									
March 31	\$ 16,785	\$ 2,828	\$ 1,407	\$.51					
	\$.50	\$ 1,757							
June 30	17,177	3,561	1,804	.65					
	.65	2,113							
September 30	17,629	3,040	1,506	.54					
	.54	1,869							

December 31		17,927	3,152	1,310	.47				
		.47	1,658						

• Results of operations for the first quarter of 2006 include after-tax charges of \$16 million for the early extinguishment of debt related to the MCI merger, \$28 million for costs associated with the relocation to Verizon Center, \$42 million for the impact of accounting for share based payments, and \$35 million for merger integration costs.

• Results of operations for the second quarter of 2006 include after-tax charges of \$48 million for merger integration costs, \$29 million for costs associated with the relocation to Verizon Center and \$186 million for severance, pension and benefits charges.

• Results of operations for the third quarter of 2006 include after-tax charges of \$16 million for merger integration costs, \$31 million for costs associated with the relocation to Verizon Center and \$17 million for severance, pension and benefits charges.

• Results of operations for the fourth quarter of 2006 include after-tax charges of \$47 million for merger integration costs, \$30 million for costs associated with the relocation to Verizon Center, \$55 million severance, pension and benefits charges, \$541 million for the loss on sale of Verizon Dominicana included in discontinued operations, and \$101 million for costs associated with the spin-off of our directories publishing business.

• Results of operations for the second quarter of 2005 include a \$336 million net after-tax gain on the sale of our wireline and directory businesses in Hawaii, tax benefits of \$242 million associated with prior investment losses and a net tax provision of \$206 million related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004.

• Results of operations for the third quarter of 2005 include an impairment charge of \$125 million pertaining to our leasing operations for aircraft leased to airlines experiencing financial difficulties.

Income before discontinued operations per common share is computed independently for each quarter and the sum of the quarters may not equal the annual amount.

Note 23

Subsequent Events

Disposition of Businesses and Investments

Telephone Access Lines Spin-off

On January 16, 2007, we announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) that will result in Verizon establishing a separate entity for its local exchange and related business assets in Maine, New Hampshire and Vermont, spinning off that new entity to Verizon shareowners, and immediately merging it with and into FairPoint.

Upon the closing of the transaction, Verizon shareowners will own approximately 60 percent of the new company and FairPoint stockholders will own approximately 40 percent. Verizon Communications will not own any shares in FairPoint after the merger. In connection with the merger, Verizon shareowners will receive one share of FairPoint stock for approximately every 55 shares of Verizon stock held as of the record date. Both the spin-off and merger are expected to qualify as tax-free transactions, except to the extent that cash is paid to Verizon shareowners in lieu of fractional shares.

The total value to be received by Verizon and its shareowners in exchange for these operations will be approximately \$2,715 million. Verizon shareowners will receive approximately \$1,015 million of FairPoint

common stock in the merger, based upon FairPoint's recent stock price and the terms of the merger agreement. Verizon will receive \$1,700 million in value through a combination of cash distributions to Verizon and debt securities issued to Verizon prior to the spin-off. Verizon may exchange these newly issued debt securities for certain debt that was previously issued by Verizon, which would have the effect of reducing Verizon's then-outstanding debt.

CANTV

During the second quarter of 2006, we entered into a definitive agreement to sell our indirect 28.5% interest in CANTV to an entity jointly owned by América Móvil and Telmex for estimated pretax proceeds of \$677 million. Regulatory authorities in Venezuela never commenced the formal review of that transaction and the related tender offers for the remaining equity securities of CANTV. On February 8, 2007, after two prior extensions, the parties terminated the stock purchase agreement because the parties mutually concluded that the regulatory approvals would not be granted by the Government.

In January 2007, the Bolivarian Republic of Venezuela (the Republic) declared its intent to nationalize certain companies, including CANTV. On February 12, 2007, we entered into a Memorandum of Understanding (MOU) with the Republic. The MOU provides that the Republic will offer to purchase all of the equity securities of CANTV through public tender offers in Venezuela and the United States at a price equivalent to \$17.85 per ADS. If the tender offers are completed, the aggregate purchase price for Verizon's shares would be \$572 million. If the 2007 dividend that has been recommended by the CANTV Board is approved by shareholders and paid prior to the closing of the tender offers, this amount will be reduced by the amount of the dividend. Verizon has agreed to tender its shares if the offers are commenced. The Republic has agreed to commence the offers within forty-five days assuming the satisfactory completion of its due diligence investigation of CANTV. The tender offers are subject to certain conditions including that a majority of the outstanding shares are tendered to the Government and receipt of regulatory approvals. Based upon the terms of the MOU and our current investment balance in CANTV, we expect that we will record a loss on our investment in the first quarter of 2007. The ultimate amount of the loss depends on a variety of factors, including the successful completion of the tender offer and the satisfaction of other terms in the MOU.

Redemption of Debt

On January 8, 2007, we redeemed the remaining \$1,580 million of the outstanding Verizon Communications Inc. floating rate notes due 2007. The gain/(loss) on this redemption was immaterial.

EXHIBIT 21

Verizon Communications Inc. and Subsidiaries
Principal Subsidiaries of Registrant at December 31, 2006

Name	Jurisdiction of Organization
Verizon California Inc.	California
Verizon Delaware LLC.	Delaware
Verizon Florida LLC.	Florida
Verizon Maryland Inc.	Maryland

Verizon New England Inc.	New York
Verizon New Jersey Inc.	New Jersey
Verizon New York Inc.	New York
Verizon North Inc.	Wisconsin
Verizon Northwest Inc.	Washington
Verizon Pennsylvania Inc.	Pennsylvania
Verizon South Inc.	Virginia
GTE Southwest Incorporated (d/b/a Verizon Southwest)	Delaware
Verizon Virginia Inc.	Virginia
Verizon Washington, DC Inc.	New York
Verizon West Virginia Inc.	West Virginia
Cellco Partnership (d/b/a Verizon Wireless)	Delaware
Verizon Capital Corp.	Delaware
Verizon Business Global LLC	Delaware

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Verizon Communications Inc. (Verizon) of our reports dated February 23, 2007, with respect to the consolidated financial statements of Verizon, Verizon management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Verizon, included in the 2006 Annual Report to Shareowners of Verizon.

Our audits also included the financial statement schedule of Verizon listed in Item 15(a). This schedule is the responsibility of Verizon's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following registration statements of Verizon and where applicable, related Prospectuses, of our reports dated February 23, 2007, with respect to the consolidated financial statements of Verizon, Verizon management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Verizon, incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 2006: Form S-8, No. 333-66459; Form S-8, No. 333-66349; Form S-4, No. 333-11573; Form S-8, No. 333-41593; Form S-8, No. 333-42801; Form S-4, No. 333-

76171; Form S-8, No. 333-75553; Form S-8, No. 333-76171; Form S-8, No. 333-50146; Form S-8, No. 333-53830; Form S-4, No. 333-82408; Form S-8, No. 333-82690; Form S-3, No. 333-109028-01; Form S-3, No. 333-106750; Form S-8, No. 333-105512; Form S-8, No. 333-105511; Form S-8, No. 333-118904; Form S-8, No. 333-123374; Form S-4, No. 333-124008; Form S-8, No. 333-124008; Form S-4, No. 333-132651; Form S-8, No. 333-134846; Form S-8, No. 333-137475; and Form S-3, No. 333-138705.

Ernst & Young LLP	
Ernst & Young LLP	New York, New York

February 23, 2007

EXHIBIT 31.1

I, Ivan G. Seidenberg, certify that:

- | | |
|-----|--|
| 1. | I have reviewed this annual report on Form 10-K of Verizon Communications Inc.; |
| 2. | Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; |
| 3. | Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; |
| 4. | The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: |
| (a) | Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; |
| (b) | Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; |
| (c) | Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and |

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007	/s/	Ivan G. Seidenberg
		Ivan G. Seidenberg Chairman and

Chief Executive Officer

EXHIBIT 31.2

I, Doreen A. Toben, certify that:

1. I have reviewed this annual report on Form 10-K of Verizon Communications Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2007	/s/	Doreen A. Toben
		Doreen A. Toben Executive Vice

President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

I, Ivan G. Seidenberg, Chairman and Chief Executive Officer of Verizon Communications Inc. (the "Company"), certify that:

(1) the report of the Company on Form 10-K for the annual period ending December 31, 2006 (the "Report") fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the Report.

Date: March 1, 2007	/s/	Ivan G. Seidenberg
		Ivan G. Seidenberg

Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

I, Doreen A. Toben, Executive Vice President and Chief Financial Officer of Verizon Communications Inc. (the "Company"), certify that:

(1) the report of the Company on Form 10-K for the annual period ending December 31, 2006 (the "Report") fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the Report.

Date: March 1, 2007		/s/ Doreen A. Toben
		Doreen A. Toben Executive

Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)			
<input checked="" type="checkbox"/>	ANNUAL REPORT PURSUANT TO SECTION 13		
OR 15(d)			
	OF THE SECURITIES EXCHANGE ACT OF 1934		
	For the fiscal year ended December 31, 2007		

OR			
<input type="checkbox"/>	TRANSITION REPORT PURSUANT TO SECTION		
13 OR 15(d)			
	OF THE SECURITIES EXCHANGE ACT OF 1934		
	For the transition period from to		

Commission file number 1-8606

Verizon Communications Inc.

(Exact name of registrant as specified in its charter)

Delaware	23-2259884
(State of incorporation)	(I.R.S. Employer Identification No.)
140 West Street New York, New York	10007
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 395-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class on which registered	Name of each exchange

Common Stock, \$.10 par value	New York, Philadelphia, Chicago, London, Swiss, Amsterdam and Frankfurt Stock Exchanges
-------------------------------	--

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	<input type="checkbox"/>
Smaller reporting company <input type="checkbox"/>			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

At June 29, 2007, the aggregate market value of the registrant's voting stock held by non-affiliates was approximately \$123,306,030,000.

At January 31, 2008, 2,870,955,142 shares of the registrant's common stock were outstanding, after deducting 96,654,977 shares held in treasury.

Documents incorporated by reference:

Portions of the registrant's Annual Report to Shareowners for the year ended December 31, 2007 (Parts I and II).

Portions of the registrant's Proxy Statement prepared in connection with the 2008 Annual Meeting of Shareowners (Part III).

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PART I Item 1. Business

General

Verizon Communications Inc. (Verizon) is one of the world's leading providers of communications services. Formerly known as Bell Atlantic Corporation, we were incorporated in 1983 under the laws of the State of Delaware. We began doing business as Verizon Communications on June 30, 2000 following our merger with GTE Corporation. We completed our merger with MCI on January 6, 2006, and its operations are now part of our wireline business. Stressing diversity and commitment to the communities in which we operate, we have a highly diverse workforce of approximately 235,000 employees.

Our principal executive offices are located at 140 West Street, New York, New York 10007 (telephone number 212-395-1000).

We have two primary reportable segments, Wireline and Domestic Wireless, which we operate and manage as strategic business segments and organize by products and services. These segments and principal activities consist of the following:

Wireline	Wireline communications services include voice, Internet access, broadband video and data, next generation Internet protocol (IP) network services, network access, long distance and other services. We provide these services to consumers, carriers, businesses and government customers both domestically and internationally in 150 countries.
Domestic Wireless	Domestic Wireless's products and services include wireless voice, data products and other value-added services and equipment sales across the United States.

The following portions of the 2007 Verizon Annual Report to Shareowners are incorporated into this Report:

- "Overview" on pages 18 through 19;
- "Segment Results of Operations" on pages 23 through 27 and in Note 17 to the Consolidated Financial Statements on pages 66 through 68; and,
- "Discontinued Operations" and "Extraordinary Item" included in "Consolidated Results of Operations" on page 23.

Wireline

Background

Our Wireline segment comprises two strategic units, Verizon Telecom and Verizon Business. In 2007, Wireline

revenues were \$50,316 million, representing approximately 54% of Verizon's aggregate revenues. Our Wireline segment is not dependent on any single customer.

• Verizon Telecom provides voice, video and data services to residential and small business customers in 28 states and Washington D.C. Verizon Telecom operates a Fiber-to-the-Premises (FTTP) network under the FiOS service mark. This advanced fiber-optic network offers sufficient bandwidth for voice, data and video services and is designed to handle future broadband and video applications as they are developed. FiOS allows us to offer our customers fast, reliable broadband access speeds and high definition video with exceptional clarity and vividness, as well as digital voice services.

• Verizon Business provides voice, data, Internet communications, next-generation IP network and Information Technology (IT) products and services to medium and large businesses and government customers both domestically and internationally.

In the discussion that follows, revenue amounts for each of the Wireline units exclude intrasegment eliminations of \$2,846 million.

Operations

Verizon Telecom

Verizon Telecom offers a broad array of telecommunications services, including voice, video and data, network access, long-distance and other communications products and services to our residential and small business customers. We have organized Verizon Telecom into three marketing units which operate across our telephone subsidiaries and focus on specific customer market areas.

Mass Markets offers broadband and voice services to residential and small business customers. Broadband services include High Speed Internet (DSL) and FiOS data and television services. Voice services include long distance services, including calling cards, 800/888 and operator services, as well as value-added services, such as voicemail, call waiting and caller identification. In 2007, Mass Markets revenues were \$21,978 million, representing approximately 44% of Wireline's aggregate revenues. Mass Market revenues were derived primarily from providing telecommunications services to residential users.

Wholesale markets our long distance and local exchange network facilities for resale to interexchange carriers, competitive local exchange carriers (CLECs), wireless carriers and Internet Service Providers (ISPs). Wholesale services include switched access products, high-capacity data products, unbundled network elements (UNEs) and interconnection services. In 2007, Wholesale

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revenues were approximately \$8,086 million, representing approximately 16.1% of Wireline's aggregate revenues. Approximately 72% of Wholesale revenues were derived from interexchange and wireless carriers. The remaining revenues principally came from CLECs, which resell network connection to their own customers.

Other service offerings include operator services, public (coin) telephone, as well as dial around services including 10-10-987, 10-10-220, 1-800-COLLECT and prepaid phone cards. In 2007, revenues from these other services were \$1,862 million, representing approximately 3.7% of Wireline's aggregate revenues.

Verizon Business

Verizon Business offers medium and large business and government customers in the United States and around the world advanced voice, data, security, and wireless solutions. Verizon Business derives 85% of its revenue from United States operations. Verizon Business provides services to over 70,000 enterprise businesses and government agencies, including 97% of the Fortune 500 companies. We have organized Verizon Business into three marketing units that focus on specific customers.

Enterprise Business offers voice, data and Internet communications services to medium and large business customers, including multi-national corporations and state and federal governments. Enterprise Business also provides value-added services intended to make communications more secure, reliable and efficient. Enterprise Business provides managed network services for customers that outsource all or portions of their communications and information processing operations and data services such as Private IP, Ethernet, Private Line, Frame Relay and ATM services, both domestically and internationally. Enterprise Business revenues in 2007 were \$14,677 million, representing approximately 29% of Wireline's aggregate revenues.

Wholesale markets domestic and international voice, data and IP services over its global network to carriers and service providers, some of whom may compete directly with Verizon at the retail level. These customers purchase services on a wholesale basis so that they can transport voice, data and IP traffic without having to build their own infrastructure. In 2007, total Wholesale revenue was \$3,345 million, representing approximately 6.6% of Wireline's aggregate revenues.

Our *International and Other* operations serve retail and wholesale customers, including enterprise businesses, government entities and telecommunications carriers outside of the United States, primarily in Europe, the Middle East, Africa, the Asia Pacific region, Latin America and Canada. These operations provide telecommunications services, which include voice, data services, Internet and managed network services. Our revenues from International and Other were \$3,214 million, representing 6.4% of Wireline's aggregate revenues in 2007.

Competition

The wireline telecommunications industry is highly competitive. We expect competition to further intensify with traditional, non-traditional and emerging players seeking to capture a larger market share as boundaries between products continue to converge. Current and potential competitors include cable companies, wireless service providers, other domestic and foreign telecommunications providers, satellite television companies, Internet service providers and other companies that offer network services and managed enterprise solutions. Many of these companies have a strong market presence, brand recognition, and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth.

We believe that cable operators represent the largest overall threat to our wireline business. Cable operators have increased the size and digital capacity of their networks so that they can offer more digital products and services. We continue to market competitive bundled offerings that include high-speed Internet access, digital television and voice services. Several major cable operators also offer bundles with wireless services through strategic partnerships or alliances.

Wireless substitution has been an ongoing competitive trend which we expect to continue, as wireless companies position their service as a landline alternative. We also face increasing competition from companies that provide Voice over Internet Protocol (VoIP) services. These services use the Internet or private broadband networks to transmit voice communications. VoIP services are available from a wide range of companies including cable companies, national VoIP providers and regional service providers. Internet portal providers are also entering our competitive space, offering free or inexpensive voice calling from instant messaging clients, encouraging video bypass by offering and enabling video content to PCs, selling content and applications such as gaming, music and business productivity tools and obtaining advertising revenues from web-based directory assistance and Internet search services.

As a result of the Telecommunications Act of 1996, which requires us to allow potential competitors to purchase our services for resale, or access components of our network on an unbundled basis (UNEs) at a prescribed cost,

competition in our local exchange markets continues to increase. Our telephone operations generally have been required to sell their services to CLECs at significant discounts from the prices our telephone operations charge their retail customers. The scope of these obligations going forward and the rates we receive, are subject to ongoing review and revision by the Federal Communications Commission (FCC) and state regulators. See “Regulatory and Competitive Trends” in the 2007 Verizon Annual Report to Shareowners.

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We believe the following are the most important competitive factors and consumer trends in the wireline industry:

Network bandwidth (speed): As both consumers and small business customers look to do more online and leverage high speed connections for entertainment, communications, and productivity, we expect broadband penetration will continue to increase over the next several years, although at a slower rate due to market maturity. As online and online-enabled activities increase, so will bandwidth requirements, both downstream and upstream. To succeed, Verizon and other network-based providers must ensure that their networks can deliver against these increasing bandwidth requirements. We are continuing to build out our FiOS network to be able to meet the future demands of our residential and business customers.

Pricing: Pricing will be a significant factor in two key areas. First, in the competition between cable and telecommunications companies, pricing will be used to capture market share from incumbents. Second, pricing is significant as non-traditional modes of providing communication services emerge and redefine existing categories. Portal-based and VoIP calling is free or nearly free to customers and is often supported by advertising revenues. Customers will be increasingly exposed to these dramatically reduced prices and this will place increasing pressure on traditional communications services.

Product differentiation: As a result of pricing pressures, providers will need to differentiate their products. Verizon believes that there are many market trends that provide potential opportunities. Customers are shifting from an access to an applications mindset and are focused on how they can leverage their broadband and video connections. Personalization and increased mobility are critical, enabling customers to obtain products and services on demand. Converged feature sets, such as integrated wireless and wireline functionality, are becoming similarly important, enabled by both customer demand and technological advancement.

Distribution channel reach: As products are becoming more experiential, customers are requiring a “hands-on” demonstration before they make a purchase commitment. One way for us to satisfy this customer need is through the use of a retail store presence. Competitors are offering their products through both their own internal channels such as the Internet and call centers, and also by partnering with retailers to showcase products. Small business customers require more and more hands-on consultation, and we are aligning our channel mix to address this need.

Network

As of December 31, 2007, our wireline network included more than 41 million wireline access lines, 8.2 million broadband connections and 943,000 FiOS TV customers nationwide. Our business strategy is to be the premier broadband and entertainment service provider in the mass market, while maintaining the level of network reliability currently provided by our telephony network. We are executing on this strategy by deploying FTTP access technologies that replace copper loop facilities with fiber optic cables. FTTP provides the highest possible bandwidth to the customer premise, based on current technology. The FTTP deployment also allows us the flexibility to more easily adapt our facilities to future product development. New optical terminals can be added to the FTTP network, providing greater bandwidth and new services without any additional field construction. To further differentiate our network, we began deploying Gigabit Passive Optical Network (GPON) technology in 2007. GPON technology will continue to support the services we offer today, while allowing for the introduction of

new services through improved downstream and upstream capacity.

In conjunction with the evolution of our access plant, we are also transitioning our metro (local) network infrastructure from traditional TDM/SONET (Synchronous Optical Network)/ATM technologies to Ethernet over Dense Wavelength Division Multiplexing (DWDM). In 2007 we began to deploy Reconfigurable Optic Add Drop Multiplexer (ROADM) nodes in the transport network. As a result, the new optical transport network provides features optimized for video distribution services and high speed data services, while maintaining the level of network reliability achieved with SONET.

To fully leverage this new network infrastructure and allow for the more efficient sharing of our network across services, we are upgrading our multiplexing and routing infrastructure to use IP, Ethernet and MPLS (Multi Protocol Label Switching) technologies. In addition, we are migrating from traditional TDM-based voice switching to VoIP. This migration lowers the lifecycle cost of current data and voice services and creates a network which can offer future multi-media communications services by adding service platforms without requiring widespread network upgrades. In keeping with our strategy of leading in network reliability, our service infrastructure utilizes our managed, Quality of Service-enabled resilient IP network rather than the Internet.

We advanced our goal of becoming a leading IP Services provider to the global business market by acquiring one of the most expansive IP networks in the world through the MCI merger in 2006. In 2007, we focused on growing our Ethernet infrastructure to support the full range of Ethernet private line and E-LAN services locally, domestically and globally. To lower the access cost and provide significant services flexibility, we are using a converged packet access strategy that replaces the private circuit-based customer access and aggregates traffic from multiple customers onto a shared Ethernet and MPLS network. We have also focused on the expansion of the Private IP network (PIP) to serve all key international markets with managed Quality of Service (QoS)-aware IP Virtual Private Network (VPN) services. Verizon's Public IP network is now interconnected to PIP through Security Gateway platforms that allow business customers to extend the reach of their private virtual networks to 'off-net' sites, such as employees' homes, small branch offices and mobile work forces. These enhancements extend our IP-services reach across the globe.

We continue to focus on emerging optical transport technologies and expansion of our network to lower overall cost. We are integrating Ethernet, SONET and Optics, and Ultra Long Haul technologies. In addition, we are deploying a new, next generation undersea cable technology through the Trans-Pacific Express (TPE) connecting the west coast of the United States to China, Korea and Taiwan.

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Wireline Offerings

Verizon Telecom's strategy is to be the customer's first choice for communications and entertainment services. We offer a variety of packages for these services that we believe are competitively priced.

Voice Services: We offer packages that include local exchange services, regional and long distance services, VoIP services, wire maintenance, as well as voice messaging and value-added services. Value-added services expand the utilization of our network and include products such as Caller ID, Call Waiting and Return Call. In 2007 we also began offering in most markets a new calling plan that bundles landline and wireless services, with calling features and unlimited calling between a customer's home phone and wireless handset, all on a single bill.

Data Services: We offer high speed DSL and FiOS broadband data products with varying downstream and upstream processing speeds. In 2007 we introduced a new, symmetrical FiOS Internet service with download and upload speeds of up to 20 Mbps. Our data packages include technical support, anti-virus and spam protection, and email online storage.

Video Services: We offer FiOS TV, Verizon's fiber-optic video service, and a variety of DIRECTV packages that are delivered over satellite systems. FiOS TV provides access to more than 200 all-digital channels and up to 31 high definition channels and now is available to more than 5 million homes across 13 states: New York, New Jersey, California, Delaware, Texas, Florida, Maryland, Pennsylvania, Indiana, Massachusetts, Virginia, Rhode Island and Oregon. Innovative features that differentiate FiOS TV from the competition include:

• *Channel Line-up* - We designed the channel line-up with the viewer in mind, grouping channels by category so viewers can easily find all of the shows within a particular genre.

• *High Definition Content* - We offer up to 31 channels in high definition with exceptional clarity and vividness and clear digital sound (Dolby 5.1) enabled by the fiber network.

• *Video on Demand* - We offer access to as many as 10,000 movies and shows via subscription, transactional and free on-demand programming, including high definition video on demand.

• *Interactive Media Guide* - Our FiOS TV guide helps customers quickly and easily find content from television listings, video on demand catalogs and their own personal music and photo files.

• *Home Media DVR* - Our multi-room digital video recorder also includes the Interactive Media Guide.

• *FiOS TV Widgets* - Viewers get one-touch, on demand access to local weather, traffic and community information, shown at the bottom of the television screen.

• *Personalized Settings and Controls* - Parents can manage the content received on their televisions.

Verizon Business products may be classified under either Core or Strategic Services. Core services comprise 76% of Verizon Business revenue and include traditional voice and data services, as well as the sale, installation, and maintenance of customer premises equipment (CPE). The market for these services is declining as customers migrate to newer technologies.

Core Services : Verizon has the experience, reliability, and product depth to support voice solutions globally. Core Services provide a comprehensive product portfolio and a convergence plan for present and future VoIP services. Core Data services include Frame Relay, ATM, and Private Line access technologies. Additionally, Verizon Business provides CPE and value added services such as installation, maintenance, and site services and supports a wide variety of technology partners in both the voice and data arenas.

Strategic Services: Strategic Services comprise 24% of Verizon Business revenue. Our service offerings can be grouped into three main categories: IP and data services, including connectivity to the Internet; managed IT and professional services, including security; and advanced voice services. Verizon Business offers IP Services, including IP Contact Center solutions, Internet, IP Communications, Private IP (MPLS), and Secure Gateway services. With professional services personnel in more than 30 countries to assist customers in adopting new IT solutions, including application management, infrastructure services, unified communications, contact center solutions, and security and business continuity services, Verizon Business seeks to transform the way enterprises operate today.

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Customers can choose to purchase customized packages of services, which they can manage internally or we can manage for them. These services include:

• *Private IP* - Our fastest growing service around the world, MPLS - based solutions, enable customers to securely leverage the efficiency, performance and value of IP. MPLS solutions increase the speed of network traffic as it travels over various platforms - IP, ATM and Frame Relay.

• *Managed Services* - Offers companies the opportunity to realize the simplicity, efficiency and total cost-of-ownership savings of outsourcing the management of their networks, security, remote access, and web applications.

• *Enterprise Mobility* - Enables customers to remotely access the power of our global IP network and leverage wireless applications.

• *Applications Hosting* - Offers housing and managing of corporate software applications and provides content delivery for customers.

• *Customer Service Management* - Provides tools that improve the customers' experience and increases call center efficiency and productivity.

• *Security* - Provides integrated solutions to help companies secure their networks and data.

Domestic Wireless

Background

Our Domestic Wireless segment, primarily includes Celco Partnership doing business as Verizon Wireless (Verizon Wireless), which is a joint venture formed in April 2000 by the combination of the United States wireless operations and interests of Verizon and Vodafone Group Plc (Vodafone). Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%.

Operations

Verizon Wireless provides wireless voice and data services across one of the most extensive wireless networks in the United States. Verizon Wireless is the largest domestic wireless carrier in terms of total revenue and the most profitable, as measured by operating income. We believe, based on publicly available information, that Verizon Wireless has the largest base of retail customers, that is, customers who are directly served and managed by Verizon Wireless and who buy its branded services.

Competition

There is significant competition in the wireless telecommunications industry. Other wireless providers, including other cellular and PCS operators and resellers, also serve each of the markets in which we operate. We currently compete primarily against three other national wireless service providers: AT&T (formerly Cingular), Sprint Nextel and T-Mobile USA. In many markets we also compete with regional carriers, such as ALLTEL, US Cellular, Leap and MetroPCS. Competition may increase due to ongoing industry consolidation, if smaller, stand-

alone wireless providers transfer licenses to larger, better capitalized and more experienced wireless providers. Resellers, sometimes referred to as Mobile Virtual Network Operators, who buy bulk wholesale services from facilities-based carriers for resale, provide yet another set of differentiated competitors in the marketplace.

We expect competition for both customers and network usage to intensify for several reasons: the higher penetration levels that currently exist in the industry; the development and deployment of new technologies; the introduction of new wireless and fixed line products and services; new market entrants; the availability of additional spectrum, both licensed and unlicensed; and regulatory changes. For example, we face increased competition from the use of other high-speed wireless technologies, such as Wi-Fi and WiMAX, which are being deployed to meet the growing customer appetite for wireless communications. In addition, some cable companies have partnered with wireless carriers, acquired wireless spectrum and introduced wireless offerings in some of their markets. We are also experiencing competition from providers of fixed line VoIP services, which displace in-building usage from cellular/PCS carriers. Additionally, as wireless data use increases, content is becoming an increasingly significant factor in the appeal of these services. This may give content providers and other participants in the wireless value chain opportunities for increased leverage and/or opportunities to compete for wireless data revenues.

We believe that the following are the most important competitive factors in our industry:

• *Network Reliability, Capacity and Coverage.* Lower prices, improved service quality and new service offerings have led to increased network usage. As a result, the ability to keep pace with network capacity needs and offer highly reliable national coverage through one's own network is important. We have an extensive national network, and we continue to look for expansion opportunities through the build-out of existing licenses, acquisitions and/or spectrum leasing. We own licenses that cover much of the country but we expect to continue making significant investments to expand our capacity, extend our coverage area and maintain and improve the reliability of our network. Our major competitors also have these needs and they are addressing them in a similar manner.

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• *Pricing.* Service and equipment pricing is an important area in which wireless carriers compete, as evidenced by recent increases in the marketing of minutes-sharing plans, free mobile-to-mobile calling, as well as offerings of larger bundles of included minutes at price points with no roaming or long distance charges. We seek to compete in this area by offering our customers services and equipment that they will regard as the best value for the cost.

• *Customer Service.* Continued high quality customer service is essential to attract new customers and retain existing customers. We believe that the quality of our customer service is a key factor in retaining our customers and in attracting both new-to-wireless customers and customers of other carriers who want to switch their wireless service. Our competitors also recognize the importance of customer service and are also focusing on improving the customer experience.

• *Product Differentiation.* As wireless technologies develop and wireless broadband networks expand, continued customer and revenue growth will be increasingly dependent on the development of new and differentiated products and services. We are committed to providing customer solutions through the development and rapid deployment of new and innovative products and services developed both internally and in collaboration with application service providers. In order to expand the availability of a wide range of devices for customers, by the end of 2008 customers will have the option to use wireless devices on our nationwide wireless network that are not provided by Verizon Wireless but otherwise meet Verizon Wireless technical standards.

• *Sales and Distribution* . Key to achieving sales success in the wireless industry is the reach and quality of sales channels and distribution points. We believe that the optimal mix of direct, indirect and wholesale distribution channels is an important ingredient in achieving industry-leading profitability. A goal of our distribution strategy is to increase sales through our company-operated stores and our outside sales team, as well as through telemarketing and web-based sales and fulfillment capabilities. Supplementing this is an extensive indirect distribution network of retail outlets and prepaid replenishment locations, original equipment manufacturers and value-added distributors, as well as various resellers who buy our service on a wholesale basis.

Our success will depend on our ability to anticipate and respond to various factors affecting the industry, including the factors described above, as well as new technologies, new business models, changes in customer preferences, regulatory changes, demographic trends, economic conditions, and pricing strategies of competitors.

Network

A key part of our business strategy is to provide the highest network reliability, which we believe is a key differentiator in the United States market and a driver of customer satisfaction. We will continue to expand and upgrade our network to provide sufficient capacity and superior coverage throughout our licensed area so that our customers can enjoy high-quality, reliable service. In addition, we will continue to explore strategic opportunities to expand our overall national coverage through selective acquisitions of wireless operations and spectrum licenses. Also, as part of our initiative to provide customers with the option of using wireless devices not provided by Verizon Wireless on our nationwide wireless network (see “Domestic Wireless - Competition - Product Differentiation”), in early 2008, we will publish the technical interface standards that the development community will need in order to design such devices.

Our network is among the most extensive in the United States, with licensed and operational coverage in 49 of the 50 largest metropolitan areas. Our existing network covered a population of approximately 263 million and provided service to 65.7 million customers as of December 31, 2007.

Network Technology

Our primary network technology platform is CDMA, based on spread-spectrum digital radio technology. 1XRTT technology is deployed in virtually all of our cell sites nationwide. In 2004, we began deploying EV-DO (Revision 0), a 3G packet-based technology intended primarily for high-speed data transmission. In 2007, we expanded our EV-DO footprint, covering a population of approximately 242 million as of December 31, 2007. In addition, we deployed EV-DO (Revision A) throughout this footprint, which allows for even faster data speeds than Revision 0.

We plan to develop and deploy our fourth generation mobile broadband network using long term evolution (LTE) technology developed within the Third Generation Partnership Project standards organization. We believe that LTE will provide us with a unique opportunity to adopt an access platform with global scale and compatibility with other technologies. The technology is designed to deliver mobile data networks with higher speed and throughput performance, lower latency, improved efficiencies and global roaming.

Spectrum

We have licenses to provide mobile wireless services on the 800-900 MHz, the 1800 -1900 MHz and on the 1700 and 2100 MHz portions of the radio spectrum. Collectively, these licenses cover territories in which approximately 295 million people, or approximately 99% of the estimated United States population, reside. The 800-900 MHz portion is used to provide digital cellular voice and data services and it was also used to provide analog service in our cellular markets. However, as of February 18, 2008, the FCC no longer requires cellular carriers to provide analog service. We are currently shutting down our analog service and expect the shutdown to be complete in virtually all of our markets by the end of the first quarter of 2008. We use the 1800-1900 MHz portion of the

spectrum to provide digital PCS voice and data services, and we intend to use the 1700 and 2100 MHz portions to deploy advanced wireless broadband services.

We anticipate that we will need additional spectrum to meet future demand and that we can meet such needs by purchasing licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the FCC. The FCC began conducting an auction of

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spectrum in the 700 MHz band on January 24, 2008. This spectrum is currently used for UHF television operations but by law those operations must cease no later than February 17, 2009. We filed an application on December 3, 2007, to qualify as a bidder in this auction, and on January 14, 2008, the FCC announced that we and 213 other applicants had qualified as eligible to bid in the auction. The FCC determined that bidding in this auction will be “anonymous,” which means that prior to and during the course of the auction(s), the FCC will not make public any information about a specific applicant’s upfront deposit or its bids. In addition, FCC rules restrict information that bidders may disclose about their participation in the auction.

Wireless Offerings

We believe that increasing the value of our service offerings to customers will help us to retain our existing customers, attract new customers and increase customer usage, all of which will, in turn, drive revenue and net income growth.

Our service packages are designed around key customer groups, from the young adult market to multinational business accounts. We tailor our wireless services, which include both voice and data offerings, and postpaid and prepaid pricing options, to the needs of these customers.

Wireless Services

Voice services. We offer a variety of packages for voice services with features and competitive pricing plans that are predominantly offered on a postpaid basis with a contract term. Specifically, we offer our Nationwide Calling Plans, which provide a choice in amounts of bundled minutes together with no roaming or long distance charges for calls on our preferred network; family/small group and shared minute plans for multiple-user households and small businesses; and plans targeted to business accounts with over 100 lines and national accounts with over 1,000 lines. In addition, we offer a national prepaid product that enables individuals to obtain wireless voice services without a long-term contract by paying in advance.

Data services. We believe that we are in a strong position to take advantage of the growing demand for wireless data services. Our strategy is to continue to expand our wireless data, messaging and multi-media offerings for both consumer and business customers.

We offer an array of data transmission and content services, such as:

• *NationalAccess/BroadbandAccess* . We offer our NationalAccess service, which enables applications such as e-mail, enterprise applications, image downloads and full browsing capabilities for laptop computer users. In addition, in areas where our network provides EV-DO coverage, we offer our BroadbandAccess service, which provides faster speeds on those applications and enables the provisioning of enhanced data applications that can operate at broadband speeds.

• *Text and Picture Messaging* . With compatible wireless devices, our customers can send and receive text

messages, as well as still pictures and full-motion video clips with sound.

• *VCAST* . Our *VCAST* Video service enables customers to access daily-updated videos from leading content providers of news, weather, sports and entertainment programming in areas covered by our EV-DO network. Our *VCAST* Music service enables customers to download music either directly to their *VCAST* Music-enabled handsets or to their personal computers. In addition, our *VCAST* MobileTV service provides customers in select markets the ability to access television programming such as news, sports, music and comedy through the use of TV-enabled handsets.

• *Get It Now* . Our *Get It Now* service enables our customers to download hundreds of applications to their handsets, including ringtones, games and wallpaper images .

• *Mobile Web* . Our *Mobile Web* service offers our customers access to content on the Internet through our portal, such as web-based e-mail, news, weather and sports and the ability to bookmark their favorite sites for access to their preferred content.

• *VZ Navigator* . Our *VZ Navigator* service enables customers to obtain audible turn-by-turn directions to their destinations, locate various points of interest and access other location-related information by using *VZ Navigator* - capable wireless devices.

• *Wireless Business Solutions - VZOffice* . Through our suite of *VZOffice* services, we provide enterprise customers with solutions for accessing the Internet and their corporate intranet, which allow for optimized wireless access to the customer's corporate applications or databases. *VZEmail* , included as part of our *VZOffice* services, offers a compelling suite of products that enables wireless e-mail across our diverse portfolio of wireless devices.

• *Wireless Office*. Our *Wireless Office* suite of services offers our wireless business customers, through the use of their existing wireless devices, calling features traditionally associated with landline/PBX phones, such as abbreviated dialing.

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Global Services

We offer a host of global solutions, available on certain of the wireless devices we offer, including GlobalAccess and GlobalEmail. This suite of solutions gives customers voice service in more than 185 destinations worldwide and data access in more than 100 destinations worldwide.

Wireless Devices

We are a service provider of choice for wireless device manufacturers which helps us develop exclusive offers for our customers, as well as branded wireless devices that complement our focus on a high-quality customer experience. The wireless devices that we offer are predominantly EV-DO enabled, and all of them are compatible with our 1XRTT network. In addition, all of the handsets that we offer are headphone/earphone compatible and, compliant with the FCC's E-911 requirements, through their GPS functionality.

Marketing

We focus our marketing strategy on targeting solutions based on satisfying our customers' needs, promoting our brand, leveraging our extensive distribution network and cross-marketing with Verizon's other business units and Vodafone.

We focus our marketing efforts on a coordinated program of television, print, radio, outdoor signage and Internet and point-of-sale media promotions. Coordinated marketing efforts throughout our service area ensure that our marketing message is consistently presented across all of our markets. Promoting the "Verizon Wireless" brand is complemented by Verizon's other brand marketing efforts, reinforcing the awareness of our services in shared markets and capitalizing on the size and breadth of Verizon Communications' customer base.

Sales and Distribution Channels

Our sales strategy uses a mix of direct, indirect and wholesale distribution channels to increase customer growth while reducing customer acquisition costs.

Our company-operated stores are an important component of our distribution strategy. Our experience has been that customers entering through this direct channel are generally higher-value customers who generate higher revenue per month on average and are less likely to cancel their service than those who come through other mass-market channels. We had approximately 2,400 company-operated stores and kiosks (including our "store-within-a-store" kiosks in Circuit City and BJ's Wholesale locations) as of December 31, 2007. In addition, our direct channel also includes our business-to-business organization, which is focused on supporting the needs of our local, regional and national business customers, as well as a telemarketing sales force dedicated to receiving incoming calls. We also offer fully-automated, end-to-end, web-based sales of wireless devices, accessories and service in all of our markets.

We have indirect retail locations throughout the United States selling wireless services, including both full-service locations and locations selling our prepaid products and services, such as Wal-Mart, Best Buy and Target. We also sell wireless access on a wholesale basis, which involves the sale of wholesale access and minutes to independent companies that package and resell wireless services to end-users.

Customer Service, Retention and Satisfaction

We believe that quality customer service increases customer satisfaction, which reduces churn, and is a key differentiator in the wireless industry. We are committed to providing high-quality customer service, investing in loyalty and retention efforts and continually monitoring customer satisfaction in all facets of our service.

While our customer service representatives are available during our normal business hours, we also have representatives available 24 hours a day, 7 days a week for emergency and technical customer issues. In addition, customers can do business with us at any time, without having to speak with a customer service representative, through our enhanced self-service applications via our interactive voice response system, through our web site, and via applications accessible from the customer's handset.

Under our enhanced Worry Free Guarantee, a national retention and loyalty initiative, we commit to provide our customers an extensive and advanced network: responsive customer service with end-to-end resolution; the option to change at any time to any qualifying price plan without payment of any additional fees or requiring any contract extension; a satisfaction guarantee with our "Test Drive" program; an early termination fee that declines each full month that a customer remains on their contract; and a handset upgrade credit every two years, provided that the customer signs a new two-year contract on a calling plan with at least \$35 monthly access. In addition, our "My Account Advantage" program offers customers who register with our "My Account" website free back-up protection that stores a copy of the customer's phone contact list on a secure website, an annual handset upgrade option for qualified customers and periodic notification if the customer exceeds their plan allowance. Another major retention and loyalty program is a customer life cycle management program in which we contact customers at key points in their service tenure with targeted offers and to provide proactive rate-plan analysis.

Table of Contents <>**Recent Developments**

“Recent Developments” included in “Other Factors That May Affect Future Results” on pages 33 through 34 of the 2007 Verizon Annual Report to Shareowners is incorporated by reference into this Report.

Regulatory and Competitive Trends

“Regulatory and Competitive Trends” included in “Other Factors That May Affect Future Results” on pages 34 through 37 of the 2007 Verizon Annual Report to Shareowners is incorporated by reference into this Report.

Employees

As of December 31, 2007, Verizon and its subsidiaries had approximately 235,000 employees. Unions represent approximately 40% of our employees.

Information on Our Internet Website

We make available, free of charge on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). Our website address is www.verizon.com. This information is included in “Investor Information” on our website.

Table of Contents <>**Cautionary Statement Concerning Forward-Looking Statements**

In this Annual Report on Form 10-K we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words “anticipates,” “believes,” “estimates,” “hopes” or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this Annual Report, could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

	•	materially adverse changes in economic and industry conditions and labor matters, including workforce levels and labor negotiations, and any resulting financial and/or operational impact, in the markets
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served by us or by companies in which we have substantial investments;

• material changes in available technology, including disruption of our suppliers' provisioning of critical products or services;

• the impact on our operations of natural or man-made disasters and any resulting financial impact not covered by insurance;

• technology substitution;

• an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations;

• the final results of federal and state regulatory proceedings concerning our provision of retail and wholesale services and judicial review of those results;

• the effects of competition in our markets;

• the timing, scope and financial impact of our deployment of fiber-to-the-premises broadband technology;

• the ability of Verizon Wireless to continue to obtain sufficient spectrum resources;

• changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings;

• the ability to complete acquisitions and dispositions; and

• the extent and timing of our ability to obtain revenue enhancements and cost savings following our business combination with MCI, Inc.

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Item 1A. Risk Factors

We face significant competition that may reduce our market share and lower our profits.

We face significant competition in our industry. The rapid development of new technologies, services and products has eliminated the traditional lines between local, long distance, wireless, cable and Internet communication services and brought new competitors to our markets, including other telephone companies, cable companies, wireless service providers, satellite providers, electric utilities, and providers of VoIP services. While these changes have enabled us to offer new types of services, they have also allowed other service providers to broaden the scope of their own competitive offerings. Our ability to compete effectively will depend on how successfully we anticipate

and respond to various competitive factors, including new services that may be introduced by our competitors, changes in consumer preferences, demographic trends and pricing pressures. We are subject to more regulation and have higher cost structures than many of our competitors, due in part to the presence of a unionized workforce and a large retiree population in our wireline business. Accordingly, our competitors may be able to offer services at lower prices. The resulting pressure on the price of services we provide may result in reduced revenues and profits. In addition, while the workforce of our wireless business is almost entirely non-union, we cannot predict what level of success unions may have in organizing this workforce or the potentially negative impact of such labor organizing on our costs.

If we are not able to take advantage of technological developments in the telecommunications industry on a timely basis, we may experience a decline in a demand for our services or may be unable to implement our business strategy.

Our industry is experiencing rapid change as new technologies are developed that offer consumers an array of choices for their communications needs. In order to grow and remain competitive, we will need to adapt to future changes in technology, to enhance our existing offerings and introduce new offerings to address our customers' changing demands. If we are unable to meet future advances in competing technologies on a timely basis or at an acceptable cost, we could lose customers to our competitors. In general, the development of new services in our industry requires us to anticipate and respond to the varied and continually changing demands of our customers. We may not be able to accurately predict technological trends or the success of new services in the market. In addition, there could be legal or regulatory restraints to our introduction of new services. If these services fail to gain acceptance in the marketplace, or if costs associated with implementation and completion of the introduction of these services materially increase, our ability to retain and attract customers could be adversely affected.

While we believe our primary wireless technology platform, CDMA, and its upgrades offer many advantages, many competing wireless service providers have chosen GSM or other technologies as the technology platforms for their wireless networks. In addition, in November 2007, we announced that we intend to develop and deploy our "fourth generation" mobile broadband network using "Long Term Evolution" (LTE). This new technology is designed to enable mobile data networks with higher speeds and improved efficiencies. However, there are risks that current or future versions of the wireless technologies and evolutionary path that we have selected may not be demanded by existing and prospective customers or provide the advantages that we expect. In addition, there are risks that other wireless carriers on whom our customers roam may change their technology to other technologies that are incompatible with ours. As a result, the ability of our and such other carriers' customers to roam on our respective wireless networks could be adversely affected. If these risks materialize, our ability to provide national wireless service to our customers, to retain and attract customers, and to maintain and grow our customer revenues could be materially adversely affected.

We depend on key suppliers and vendors to provide equipment that we need to operate our business.

We also depend upon various key suppliers and vendors to provide us with the equipment that we need to operate our business. If these suppliers or vendors fail to provide equipment or service to us on a timely basis, it could have an adverse impact on our ability to implement our business strategy and, in addition, we might be unable to satisfy the requirements contained in our FCC licenses regarding the construction of our wireless network. These suppliers and vendors may be subject to litigation with respect to technology that we depend on for our service offerings.

Changes in the regulatory framework under which we operate could adversely affect our business prospects or results of operations.

Our operations are subject to regulation by the FCC and other federal, state and local agencies. It is impossible to predict with any certainty the outcome of pending federal and state regulatory proceedings relating to our provision of retail or wholesale services, or the reviews by federal or state courts of regulatory rulings. Unless we are able to obtain appropriate relief, existing laws and regulations may inhibit our ability to expand our business and introduce new products and services. In addition, the adoption of new laws or regulations or changes to the

existing regulatory framework could adversely affect our business plans. For example, the development of new technologies, such as Internet Protocol-based services, including VoIP and super high-speed broadband and video, could be subject to conflicting regulation between the FCC and various state and local authorities, which could significantly increase the cost of implementing and introducing new services based on this technology. In addition, the rapid growth of the wireless industry has led to an increase in efforts by some state legislatures and state public utility commissions to regulate the industry in ways that may impose additional costs on Verizon Wireless. Moreover, many states have also imposed significant taxes on providers in the wireless industry.

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Natural or man-made disasters may disrupt our operations.

The occurrence of natural or man-made disasters may disrupt our operations. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our inability to operate our wireline or wireless networks as a result of such events, even for a limited period of time, may result in significant expenses and/or loss of market share to other communications providers, which could have a material adverse effect on our results of operations and financial condition.

We are subject to a significant amount of litigation, which could require us to pay significant damages or settlements.

Our business faces a substantial amount of litigation, including patent infringement lawsuits, antitrust class actions, wage and hour class actions, personal injury claims and lawsuits relating to our advertising, sales, billing and collection practices. In addition, our wireless business also faces personal injury and consumer class action lawsuits relating to alleged health effects of wireless phones or radio frequency transmitters, and class action lawsuits that challenge marketing practices and disclosures relating to alleged adverse health effects of handheld wireless phones. We may incur significant expenses in defending these lawsuits. In addition, we may be required to pay significant awards or settlements.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

General

Our principal properties do not lend themselves to simple description by character and location. Our total investment in plant, property and equipment was approximately \$214 billion at December 31, 2007 and \$204 billion at December 31, 2006, including the effect of retirements, but before deducting accumulated depreciation. Our gross investment in plant, property and equipment consisted of the following at December 31:

	2007	2006				
Network equipment	81.1	%	80.1%			
Land, buildings and building equipment		9.6		9.9		

Furniture and other		9.3		10.0				
	100.0	%		100.0%				

Our properties are divided among our operating segments at December 31, as follows:

	2007		2006					
Wireline	75.7	%	76.7%					
Wireless	23.8		22.7					
Corporate and Other			0.5	0.6				
	100.0	%		100.0%				

Network equipment consists primarily of cable (predominantly aerial, buried underground or undersea) and the related support structures of poles and conduit, wireless plant, switching equipment, transmission equipment and related facilities. Land, buildings and building equipment consists of land and land improvements, central office buildings or any other buildings that house network equipment, and buildings owned by Verizon that are used for administrative and other purposes. Furniture and other consists of public telephone instruments and telephone equipment (including PBXs), furniture, office equipment, motor vehicles, plant under construction, capital leases, capitalized computer software costs and leasehold improvements. A portion of our property is subject to the liens of their respective mortgages securing funded debt.

The customers of our telephone operations are served by electronic switch systems (analog/digital/packet) that provide a wide variety of services. As of December 31, 2007, virtually all of the switched access lines were served by digital capability.

Capital Expenditures

We continue to make significant capital expenditures to meet the demand for communications services and to further improve such services. Capital spending for Wireline was \$10,956 million in 2007, \$10,259 million in 2006 and \$8,267 million in 2005. Capital spending for Domestic Wireless was \$6,503 million in 2007, \$6,618 million in 2006 and \$6,484 million in 2005.

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Item 3. Legal Proceedings

Verizon, and a number of other telecommunications companies, have been the subject of multiple class action suits concerning its alleged participation in intelligence-gathering activities allegedly carried out by the federal government, at the direction of the President of the United States, as part of the government's post-September 11 program to prevent terrorist attacks. Plaintiffs generally allege that Verizon has participated by permitting the government to gain access to the content of its subscribers' telephone calls and/or records concerning those calls and that such action violates federal and/or state constitutional and statutory law. Relief sought in the cases includes injunctive relief, attorneys' fees, and statutory and punitive damages. On August 9, 2006, the Judicial Panel on Multidistrict Litigation ("Panel") ordered that these actions be transferred, consolidated and coordinated in the U.S. District Court for the Northern District of California. The Panel subsequently ordered that a number of "tag along" actions also be transferred to the Northern District of California. Verizon believes that these lawsuits

are without merit and has moved to dismiss them.

The New York State Department of Environmental Conservation has advised Verizon New York Inc. (VZNY) of potential issues in connection with its underground storage tank registration, inspection and maintenance program. While VZNY does not believe that any of the alleged conditions has resulted in a release or threatened release, aggregate penalties relating to alleged violations could exceed \$100,000 because of the number of tanks operated by VZNY. VZNY does not believe that the cost of remedying any alleged violations will be material.

Verizon Wireless is conducting an audit of its cell site, switch and non-retail building facilities under an audit agreement with the United States Environmental Protection Agency. The audit while not complete, identified potential violations of various laws governing hazardous substance reporting, air permitting and spill plan preparation. Although none of the potential violations has resulted in a release or threatened release, aggregate penalties relating to alleged violations could exceed \$100,000 because of the number of facilities operated by Verizon Wireless. Verizon Wireless does not believe that the penalties ultimately incurred and the cost of remedying any alleged violations will be material.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

Executive Officers of the Registrant

Set forth below is information with respect to our executive officers.

Name	Age	Office	Held Since
Ivan G. Seidenberg	61	Chairman and Chief Executive Officer	2000
William P. Barr	57	Executive Vice President and General Counsel	2000
Thomas A. Bartlett	49	Senior Vice President and Controller	2005
John W. Diercksen	58	Executive Vice President - Strategy, Development and Planning	2003
Shaygan Kheradpir	47	Executive Vice President and Chief Information Officer	2007
John F. Killian	53	President - Verizon Business	2006
Richard J. Lynch	59	Executive Vice President and Chief Technology Officer	2007
Lowell C. McAdam	53	Executive Vice President and President and Chief Executive Officer - Verizon Wireless	2007
Marc C. Reed	49	Executive Vice President - Human Resources	2004
Virginia P. Rueterholz	46	President - Verizon Telecom	2006
John G. Stratton	46	Executive Vice President and Chief Marketing Officer	2007
Dennis F. Strigl	61	President and Chief Operating Officer	2007
Thomas J. Tauke	57	Executive Vice President - Public Affairs, Policy and Communications	2004
Doreen A. Toben	58	Executive Vice President and Chief Financial Officer	2002

Catherine T. Webster	55	Senior Vice President and Treasurer	2005		
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Prior to serving as an executive officer, each of the above officers has held high level managerial positions with the company or one of its subsidiaries for at least five years.

Officers are not elected for a fixed term of office and may be removed from office at any time at the discretion of the Board of Directors.

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PART II
<i>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</i>

The principal market for trading in the common stock of Verizon is the New York Stock Exchange. The common stock is also listed in the United States on the Chicago and Philadelphia stock exchanges. As of December 31, 2007, there were 836,237 shareowners of record.

High and low stock prices, as reported on the New York Stock Exchange composite tape of transactions, and dividend data are as follows:

			Market Price				
				Cash Dividend Declared			
			High	Low			
2007	First Quarter		\$ 38.77	\$			
35.60			\$.405				
	Second Quarter		43.99				
	36.75			.405			
	Third Quarter		44.75				
	39.27			.430			
	Fourth Quarter		46.24				
	40.77			.430			
2006*	First Quarter		\$ 33.89	\$			
28.95			\$.405				

	Second Quarter	33.46					
29.00						.405	
	Third Quarter	36.62					
30.22						.405	
	Fourth Quarter	37.64					
33.99						.405	

* 2006 prices have been adjusted for the spin-off of our domestic print and Internet yellow pages directories business.

The following table provides information about Verizon's common stock repurchases during the fourth quarter of 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share				
Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs						
Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs						
October	7,245,000	\$ 45.02	7,245,000			
	56,814,000					
November	11,209,000	43.28	11,209,000			
	45,605,000					
December	6,781,000	43.85	6,781,000			
	38,824,000					
	25,235,000		25,235,000			

On January 19, 2006, the Board of Directors approved a share buy back program which authorized the repurchase of up to 100 million common shares by no later than the close of business on February 28, 2008. On March 1, 2007, the Board of Directors replaced this share buy back program with a new program for the repurchase of up to 100 million shares of Verizon common stock through the earlier of February 28, 2010 or when the total number of shares repurchased under the new buy back program aggregates to 100 million. On February 7, 2008, the Board of Directors replaced this share buy back program with a new program for the repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2011. The Board also determined that no additional shares were to be purchased under the prior program. The current program permits Verizon to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Board also authorized Verizon to enter into Rule 10b5-1 plans from time to time to facilitate the repurchase of its shares. A Rule 10b5-1 plan permits the Company to repurchase shares at times when it might otherwise be prevented from doing so, provided the plan is adopted when the Company is not aware of material non-public information.

Item 6. Selected Financial Data

Information required by this item is included in the 2007 Verizon Annual Report to Shareowners under the heading "Selected Financial Data" on page 17, which is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Results of Financial Condition and Results of Operations

Information required by this item is included in the 2007 Verizon Annual Report to Shareowners under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 18 through 37, which is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is included in the 2007 Verizon Annual Report to Shareowners under the heading "Market Risk" on page 31, which is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Information required by this item is included in the 2007 Verizon Annual Report to Shareowners on pages 38 through 71, which is incorporated herein by reference.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Our chief executive officer and chief financial officer have evaluated the effectiveness of the registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934), as of the end of the period covered by this annual report, that ensure that information relating to the registrant which is required to be disclosed in this report is recorded, processed, summarized and reported, within required time periods. Based on this evaluation, our chief executive officer and chief financial officer have concluded that the registrant's disclosure controls and procedures were effective as of December 31, 2007.

There were no changes in the registrant's internal control over financial reporting during the fourth quarter of 2007 that have materially affected, or are reasonably likely to materially affect the registrant's internal control over financial reporting.

Management's report on internal control over financial reporting and the attestation report of Verizon's independent registered public accounting firm is included in the 2007 Verizon Annual Report to Shareowners on pages 38 through 39 and is incorporated herein by reference.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

For information with respect to our executive officers, see “Executive Officers of the Registrant” at the end of Part I of this Report. For other information required by this item see the sections entitled “Election of Directors,” “About Verizon’s Governance Practices,” “About the Board of Directors and its Committees” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement for our 2008 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference.

Item 11. Executive Compensation

For information with respect to executive compensation, see the section entitled “Executive Compensation” in the Proxy Statement for our 2008 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

For information with respect to the security ownership of the Directors and Executive Officers, see the section entitled “Security Ownership of Directors and Officers” in the Proxy Statement for our 2008 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference. In addition, the following table provides other equity compensation plan information:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	139,145,918		\$
49.28	137,935,869		
Equity compensation plans not approved by security holders	36,754,227		
	41.96	13,236,690*	
Total	175,900,145	47.75	
	151,172,559		

* Indicates the number of securities available for issuance under the Verizon Communications 2000 Broad-Based Incentive Plan, which provides for awards of nonqualified stock options, restricted stock, restricted stock units and other equity-based hypothetical stock units to employees of Verizon and its subsidiaries.

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Item 13. Certain Relationships and Related Transactions, and Director Independence

For information with respect to certain relationships and related transactions, and director independence, see the sections entitled “About Verizon’s Governance Practices” and “About the Board of Directors and its Committees” in the Proxy Statement for our 2008 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

For information with respect to principal accounting fees and services, see the section entitled “Ratification of Appointment of Independent Registered Public Accounting Firm” in the Proxy Statement for our 2008 Annual Meeting of Shareholders filed pursuant to Regulation 14A, which is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report:

	Page	
(1)	Report of Management on Internal Control Over Financial Reporting	*
(2)	Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	*
(3)	Report of Independent Registered Public Accounting Firm on Financial Statements	*
	Financial Statements covered by Report of Independent Registered Public Accounting Firm:	
	Consolidated Statements of Income	*
	Consolidated Balance Sheets	*
	Consolidated Statements of Cash Flows	*
	Consolidated Statements of Changes in Shareowners’ Investment	*
	Notes to Consolidated Financial Statements	*
	* Incorporated herein by reference to the appropriate portions of the registrant’s annual report to shareowners for the fiscal year ended December 31, 2007. (See Part II.)	
(4)	Financial Statement Schedule	

	II - Valuation and Qualifying Accounts	22		
(5)	Exhibits			

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Exhibit Number		
3a		Restated Certificate of Incorporation of Verizon Communications Inc. (Verizon) (Exhibit 3a to Form 10-K for the year ended December 31, 2005).
3b		Bylaws of Verizon, as amended, effective as of February 7, 2008 (Exhibit 3b to Form 8-K dated February 7, 2008).
4		No instrument which defines the rights of holders of long-term debt of Verizon and its consolidated subsidiaries is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, Verizon hereby agrees to furnish a copy of any such instrument to the SEC upon request.
10a		Description of Verizon Deferred Compensation Plan for Non-Employee Directors (Exhibit 10a to Form 10-K for the year ended December 31, 2000).*
		10a(i) Description of Amendment to Plan (Exhibit 10a(i) to Form 10-K for the year ended December 31, 2004).*
10b		Bell Atlantic Deferred Compensation Plan for Outside Directors, as amended and restated (Exhibit 10a to Form 10-K for the year ended December 31, 1998).*
10c		Deferred Compensation Plan for Non-Employee Members of the Board of Directors of GTE, as amended (Exhibit 10-1 to GTE's Form 10-K for the year ended December 31, 1997 and Exhibit 10.1 to GTE's Form 10-K for the year ended December 31, 1998, File No. 1-2755).*
10d		GTE's Directors' Deferred Stock Unit Plan (Exhibit 10-8 to GTE's Form 10-K for the year ended December 31, 1997, File No. 1-2755).*
10e		Description of Non-Employee Director's Travel Accident Insurance Coverage filed herewith.*
10f		Bell Atlantic Directors' Charitable Giving Program, as amended (Exhibit 10p to Form SE dated March 29, 1990 and Exhibit 10p to Form SE dated March 29, 1993).*
10g		GTE's Charitable Awards Program (Exhibit 10-10 to GTE's Form 10-K for the year ended December 31, 1992, File No. 1-2755).*

10h		NYNEX Directors' Charitable Award Program (Exhibit 10i to Form 10-K for the year ended December 31, 2000).*
10i		Verizon 2000 Broad-Based Incentive Plan (Exhibit 10h to Form 10-Q for the period ended September 30, 2000).*
10j		Verizon Long-Term Incentive Plan (Appendix B to Verizon's 2001 Proxy Statement filed March 12, 2001).*
		10j(i) Restricted Stock Unit Agreement 2005-2007 Award Cycle (Exhibit 10a to Form 10-Q for the period ended March 31, 2005).*
		10j(ii) Performance Stock Unit Agreement 2005-2007 Award Cycle (Exhibit 10b to Form 10-Q for the period ended March 31, 2005).*
		10j(ii)(a) Addendum to Performance Stock Unit Agreement 2005-2007 Award Cycle (Exhibit 10j(iv)(a) to Form 10-K for the year ended December 31, 2005).*
		10j(iii) Restricted Stock Unit Agreement 2006-2008 Award Cycle (Exhibit 10j(v) to Form 10-K for the year ended December 31, 2005).*
		10j(iv) Performance Stock Unit Agreement 2006-2008 Award Cycle (Exhibit 10j(vi) to Form 10-K for the year ended December 31, 2005).*
		10j(iv)(a) Addendum to Performance Stock Unit Agreement (Exhibit 10a to Form 10-Q for the period ended March 31, 2006). *
		10j(v) Restricted Stock Unit Agreement 2007-09 Award Cycle (Exhibit 10a to Form 10-Q for the period ended March 31, 2007).*
		10j(v)(a) Special Restricted Stock Unit Agreement (Exhibit 10c to Form 10-Q for the period ended March 31, 2007).*
		10j(vi) Performance Stock Unit Agreement 2007-09 Award Cycle (Exhibit 10b to Form 10-Q for the period ended March 31, 2007).*
		10j(vi)(a) Form of Addendum to Performance Stock Unit Agreement (Exhibit 10d to Form 10-Q for the period ended March 31, 2007).*
10k		GTE's Long-Term Incentive Plan, as amended (Exhibit B to GTE's 1997 Proxy Statement and Exhibit 10.5 to GTE's 1998 Form 10-K for the year ended December 31, 1998, File No. 1-2755); Description of Amendments (Exhibit 10l to Form 10-K for the year ended December 31, 2000).*

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10m		NYNEX 1995 Stock Option Plan, as amended (Exhibit No. 1 to NYNEX's Proxy Statement dated March 20, 1995, File No. 1-8608); Description of Amendments (Exhibit 10n to Form 10-K for the year ended December 31, 2000).*
10n		Verizon Short-Term Incentive Plan (Appendix C to Verizon's 2001 Proxy Statement filed March 12, 2001).*
10o		Verizon Income Deferral Plan (Exhibit 10f to Form 10-Q for the period ended June 30, 2002).*
		10o(i) Description of Amendment to Plan (Exhibit 10o(i) to Form 10-K for the year ended December 31, 2004). *
10p		Verizon Excess Pension Plan (Exhibit 10p to Form 10-K for the year ended December 31, 2004). *
		10p(i) Description of Amendment to Plan (Exhibit 10p(i) to Form 10-K for the year ended December 31, 2004).*
10q		GTE's Executive Salary Deferral Plan, as amended (Exhibit 10.10 to GTE's Form 10-K for the year ended December 31, 1998, File No. 1-2755).*
10r		Bell Atlantic Senior Management Long-Term Disability and Survivor Protection Plan, as amended (Exhibit 10h to Form SE filed on March 27, 1986 and Exhibit 10b(ii) to Form 10-K for the year ended December 31, 1997).*
10s		Description of Bell Atlantic Senior Management Estate Management Plan (Exhibit 10rr to Form 10-K for year ended December 31, 1997).*
10t		GTE's Executive Retired Life Insurance Plan, as amended (Exhibits 10-6, 10-6 and 10-6 to GTE's Form 10-K for the years ended December 31, 1991, 1992 and 1993, respectively, File No. 1-2755).*
10u		NYNEX Supplemental Life Insurance Plan (Exhibit No. 10 iii 21 to NYNEX's Form 10-Q for the period ended June 30, 1996, File No. 1-8608).*
10v		Summary Plan Description of Verizon Executive Deferral Plan (Exhibit 10(v) to Form 10-K for the year ended December 31, 2005).*
10y		Employment Agreement between Verizon and Marc C. Reed (Exhibit 10a to Form 10-Q for the period ended June 30, 2004).*

10z	Employment Agreement between Verizon and William P. Barr (Exhibit 10z to Form 10-Q for the period ended March 31, 2003).*
10cc	Employment Agreement between Verizon and Doreen A. Toben (Exhibit 10d to Form 10-Q for the period ended June 30, 2002).*
10dd	Description of the Split-Dollar Insurance Arrangements (Exhibit 10g to Form 10-Q for the period ended June 30, 2002).*
	10dd(i) Description of Changes to Arrangements (Exhibit 10dd(i) to Form 10-K for the year ended December 31, 2004).*
10ee	Employment Agreement between Verizon and Dennis F. Strigl (Exhibit 10f to Form 10-Q for the period ended September 30, 2000).*
10ff	Employment Agreement between Verizon and Thomas J. Tauke (Exhibit 10b to Form 10-Q for the period ended June 30, 2004).*
10gg	Form of Employment Agreement between Verizon and Band 1 Senior Management Employee (Exhibit 10gg to the Form 10-K for the year ended December 31, 2004).*
10hh	NYNEX Deferred Compensation Plan for Non-Employee Directors (Exhibit 10gg to NYNEX's Registration Statement No. 2-87850, File No. 1-8608).*
	10hh(i) Amendment to NYNEX Deferred Compensation Plan for Non-Employee Directors (Exhibit 10iii 5a to NYNEX's Quarterly Report on Form 10-Q for the period ended June 30, 1996, File No. 1-8608).*
10ii	U.S. Wireless Agreement, dated September 21, 1999, among Bell Atlantic and Vodafone Airtouch plc, including the forms of Amended and Restated Partnership Agreement and the Investment Agreement (Exhibit 10 to Form 10-Q for the period ended September 30, 1999).
12	Computation of Ratio of Earnings to Fixed Charges filed herewith.
13	Portions of Verizon's Annual Report to Shareowners for the fiscal year ended December 31, 2007. Only the information incorporated by reference into this Form 10-K is included in the exhibit.

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21	List of principal subsidiaries of Verizon filed herewith.
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23		Consent of Ernst & Young LLP filed herewith.
31.1		Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2		Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1		Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2		Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*		Indicates management contract or compensatory plan or arrangement.

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Schedule II - Valuation and Qualifying Accounts

Verizon Communications Inc. and Subsidiaries

For the Years Ended December 31, 2007, 2006 and 2005

Description	Balance at Beginning of Period		Charged To Expenses		Additions		Deductions Note (b)		Balance at End of Period	
Allowance for Uncollectible										
Accounts Receivable:										
Year 2007		\$ 1,139		\$ 1,047		\$ 834		\$		
1,995		\$ 1,025								
Year 2006		1,100		1,034		1,627				
		2,622		1,139						
Year 2005		1,363		1,076		794				
		2,133		1,100						

Valuation Allowance for Deferred Tax Assets:							
Year 2007	\$ 2,600	\$ 231	\$ 29	\$			
189	\$ 2,671						
Year 2006	815	51	2,234	500			
	2,600						
Year 2005	1,217	46	43	491			
	815						

Discontinued Businesses:							
Year 2007	\$ 237	\$ -	\$ -	\$			
13	\$ 224						
Year 2006	248	-	-	11			
	237						
Year 2005	287	5	-	44			
	248						

(a) Allowance for Uncollectible Accounts Receivable includes: (1) amounts previously written off which were credited directly to this account when recovered; and (2) accruals charged to accounts payable for anticipated uncollectible charges on purchases of accounts receivable from others which were billed by us. Also includes amounts transferred from other accounts. The 2006 amounts charged to other accounts for the allowance for uncollectible accounts receivable and valuation allowance for deferred tax assets were primarily due to the acquisition of MCI.

(b) Amounts written off as uncollectible or transferred to other accounts or utilized.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Verizon Communications Inc.

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By:	/s/ Thomas A. Bartlett			Date:			
	February 26, 2008						
	Thomas A. Bartlett						
	Senior Vice President and Controller						

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Principal Executive Officer:			
/s/ Ivan G. Seidenberg	Chairman and	Chief Executive Officer	
Ivan G. Seidenberg	February 26, 2008		
Principal Financial Officer:			
/s/ Doreen A. Toben	Executive Vice President and	Chief Financial Officer	
Doreen A. Toben	February 26, 2008		
Principal Accounting Officer:			
/s/ Thomas A. Bartlett	Senior Vice President and	Controller	
Thomas A. Bartlett	February 26, 2008		

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Signatures - Continued			
/s/ Ivan G. Seidenberg	Director		
Ivan G. Seidenberg	February 26, 2008		
/s/ Richard L. Carrión	Director		
Richard L. Carrión	February 26, 2008		
/s/ M. Frances Keeth	Director		

February 26, 2008

M. Frances Keeth

/s/ Robert W. Lane

Director

February 26, 2008

Robert W. Lane

/s/ Sandra O. Moose

Director

February 26, 2008

Sandra O. Moose

/s/ Joseph Neubauer

Director

February 26, 2008

Joseph Neubauer

/s/ Donald T. Nicolaisen

Director

February 26, 2008

Donald T. Nicolaisen

/s/ Thomas H. O'Brien

Director

February 26, 2008

Thomas H. O'Brien

/s/ Clarence Otis, Jr.

Director

February 26, 2008

Clarence Otis, Jr.

/s/ Hugh B. Price

Director

February 26, 2008

Hugh B. Price

/s/ John W. Snow	Director		
	February 26, 2008		
John W. Snow			
/s/ John R. Stafford	Director		
	February 26, 2008		
John R. Stafford			
/s/ Robert D. Storey	Director		
	February 26, 2008		
Robert D. Storey			

Description of Non-Employee Director's Travel Accident Insurance Coverage

Verizon provides accident protection to non-employee Directors while travelling on Verizon business. Benefits are payable in the event of (1) accidental death and dismemberment, including paralysis, and (2) in the case of insured non-employee Directors under the age of 70, permanent total disability.

**Computation of Ratio of Earnings to Fixed Charges
Verizon Communications Inc. and Subsidiaries**

(dollars in millions)

	2007	2006	2005				
Years Ended December 31,		2004	2003				
Income before provision for income taxes, discontinued operations, extraordinary items, and cumulative effect of accounting change	\$9,492	\$8,154	\$8,448				
		\$7,977	\$2,681				
Minority interest	5,053	4,038	3,001				
		2,329	1,562				
Equity in (earnings) loss of unconsolidated businesses	(585)	(773)	(686)				
	)	(1,690)	)	(1,273			
)						

Dividends from unconsolidated businesses	2,571	42	2,335						
		162	198						
Interest expense ⁽¹⁾	1,829	2,349	2,129						
		2,336	2,741						
Portion of rent expense representing interest	571	530	511						
		449	432						
Amortization of capitalized interest	115	112	108						
		104	103						
Income, as adjusted	19,046	14,452	15,846						
		11,667	6,444						
Fixed charges:									
Interest expense ⁽¹⁾	1,829	2,349	2,129						
		2,336	2,741						
Portion of rent expense representing interest	571	530	511						
		449	432						
Capitalized interest	429	462	352						
		177	144						
Preferred stock dividend requirement ⁽²⁾	-	2	9						
		8	12						
Fixed Charges	2,829	3,343	3,001						
		2,970	3,329						
Ratio of Earnings to Fixed Charges	6.73	4.32	5.28						
		3.93	1.94						

⁽¹⁾ Verizon adopted FIN 48 on January 1, 2007 (see Note 1 and 16 of the Consolidated Financial Statements in this Annual Report on Form 10-K). Our policy is to classify interest expense recognized on uncertain tax positions as income tax expense. We have excluded interest expense recognized on uncertain tax positions from the Ratio of

Earnings to Fixed Charges.

On January 15, 2006, Verizon redeemed \$100 million Verizon International Holding Ltd. Series A variable term voting cumulative preferred stock and paid holders the last dividend on that stock.

EXHIBIT 13

Selected Financial Data Verizon Communications Inc. and Subsidiaries

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	(dollars in millions, except per share amounts)			
	2007	2006	2005	2004

Results of Operations

Operating revenues	\$ 93,469	\$ 88,182	\$ 69,518	\$
65,751	\$ 61,754			
Operating income	15,578	13,373	12,581	
	10,870	5,312		
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	5,510			
	5,480	6,027	5,899	2,168
Per common share - basic	1.90	1.88	2.18	2.13
	.79			
Per common share - diluted	1.90	1.88	2.16	2.11
	.79			
Net income available to common shareowners	5,521	6,197	7,397	7,831
	3,077			
Per common share - basic	1.91	2.13	2.67	2.83
	1.12			
Per common share - diluted	1.90	2.12	2.65	2.79
	1.12			
Cash dividends declared per common share	1.67	1.62	1.62	1.54
	1.54			

Financial Position

Total assets	\$ 186,959	\$ 188,804	\$ 168,130	\$
165,958	\$ 165,968			
Debt maturing within one year	2,954	7,715	6,688	3,476
	5,883			
Long-term debt	28,203	28,646	31,569	
	34,970	38,609		

Employee benefit obligations	29,960	30,779	17,693		
	16,796	15,726			
Minority interest	32,288	28,337	26,433		
	24,709	24,023			
Shareowners' investment	50,581	48,535	39,680		
	37,560	33,466			

• Significant events affecting our historical earnings trends in 2005 through 2007 are described in Management's Discussion and Analysis of Results of Operations and Financial Condition.

• 2004 data includes sales of business, severance, pension and benefit charges and other items.

• 2003 data includes severance, pension and benefit charges and other items.

Stock Performance Graph

COMPARISON OF FIVE-YEAR TOTAL RETURN AMONG VERIZON, S&P 500 TELECOM SERVICES INDEX AND S&P 500 STOCK INDEX

At December 31,					
Data Points in Dollars	2002	2003	2004	2005	2006
Verizon	100.0	94.5	113.6	88.5	119.1
	145.4				
S&P Telecom Services	100.0	107.2	128.5		121.6
	166.2	185.9			
S&P 500	100.0	128.7	142.7	149.6	173.3
	182.8				

The graph compares the cumulative total returns of Verizon, the S&P 500 Telecommunications Services Index, and the S&P 500 Stock Index over a five-year period, adjusted for the spin-off of our domestic print and Internet yellow pages directories business. It assumes \$100 was invested on December 31, 2002, with dividends reinvested.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Verizon Communications Inc. (Verizon or the Company) is one of the world's leading providers of communications services. Verizon's wireline business provides communications services, including voice, broadband data and video services, network access, nationwide long-distance and other communications products and services, and also owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks. Verizon's domestic wireless business, operating as Verizon Wireless, provides wireless voice and data products and services across the United States using one of the most extensive and reliable wireless networks. Stressing diversity and commitment to the communities in which we operate, we have a highly diverse workforce of approximately 235,000 employees.

The sections that follow provide information about the important aspects of our operations and investments, both at the consolidated and segment levels, and include discussions of our results of operations, financial position and sources and uses of cash. In addition, we have highlighted key trends and uncertainties to the extent practicable. The content and organization of the financial and non-financial data presented in these sections are consistent with information used by our chief operating decision makers for, among other purposes, evaluating performance and allocating resources. We also monitor several key economic indicators as well as the state of the economy in general, primarily in the United States where the majority of our operations are located, in evaluating our operating results and analyzing and understanding business trends. While most key economic indicators, including gross domestic product, impact our operations to some degree, we have noted higher correlations to housing starts, non-farm employment, personal consumption expenditures and capital spending, as well as more general economic indicators such as inflation and unemployment rates.

Our results of operations, financial position and sources and uses of cash in the current and future periods reflect Verizon management's focus on the following strategic imperatives:

• **Revenue Growth** - Our emphasis is on revenue growth, devoting more resources to higher growth markets such as wireless, including wireless data, wireline broadband connections, including Verizon's high-capacity fiber optics to the premises network operated under the FiOS service mark, digital subscriber lines (DSL) and other data services, as well as expanded strategic services to business markets, rather than to the traditional wireline voice market. During 2007, we reported consolidated revenue growth of 6% compared to 2006, primarily driven by 15.3% higher revenue at Domestic Wireless, where we added approximately 6.9 million retail net wireless customers, partially offset by a decline in reseller customers, resulting in approximately 6.7 million total wireless net customer additions. At Wireline, revenue growth in the residential market, driven by broadband and video services, coupled with growth in the business market derived from strategic services, partially offset declines in the traditional voice mass market.

• **Market Share Gains** - We are focused on gaining market share. In our wireline business, our goal is to become the leading broadband provider in every market in which we operate. We added 1,253,000 wireline broadband connections during 2007 and we achieved our goal of being among the top 10 video providers in the U.S. during 2007 through the continued deployment of FiOS. At Wireline, as of December 31, 2007, we passed 9.3 million premises with our high-capacity fiber network, and we have obtained over 1,000 video franchises covering 12.5 million households with TV service available for sale to 5.9 million premises. We had 943,000 FiOS TV customers, adding approximately 736,000 net new FiOS TV customers in 2007 and exceeded 1.8 million total video customers, including our satellite offering from DIRECTV. Also during 2007, revenues from our enterprise customers grew 2.7% compared with last year, primarily driven by a 25.7% increase in revenues from sales of strategic services (Private IP, IP, Virtual Private Network or VPN, Web Hosting and Voice over IP or VoIP). At Domestic Wireless, we continue to add retail customers, grow revenue and gain market share while maintaining a low churn (customer turnover) rate.

• **Profitability Improvement** - Our goal is to increase operating income and margins. In 2007, operating income rose 16.5% compared to 2006, while income before provision for income taxes, discontinued operations, extraordinary item and cumulative effect of accounting change rose 16.4% over the same period. Our operating income margin rose to 16.7% in 2007, compared with 15.2% in 2006. Supporting these improvements, our capital spending continues to be directed toward growth markets, positioning the Company for sustainable, long-term

profitability. High-speed wireless data (Evolution-Data Optimized or EV-DO) services, deployment of fiber optics to the premises, as well as expanded services to enterprise customers are examples of these growth markets. During 2007, capital expenditures were \$17,538 million compared with capital expenditures of \$17,101 million in 2006, excluding discontinued operations. We expect 2008 capital expenditures to be lower than 2007 capital expenditures. In addition to capital expenditures, Domestic Wireless expects, from time-to-time, to acquire additional wireless spectrum through participation in the Federal Communications Commission's (FCC) wireless spectrum auctions and in the secondary market, as spectrum capacity is needed to support expanding data applications and a growing customer base. Domestic Wireless also expects, from time-to-time, to acquire operating markets and spectrum in geographic areas where it does not currently operate.

• **Operational Efficiency** - While focusing resources on revenue growth and market share gains, we are continually challenging our management team to lower expenses, particularly through technology-assisted productivity improvements, including self-service initiatives. The effect of these and other efforts, such as real estate consolidations, call center routing improvements, the formation of a centralized shared services organization, and centralizing information technology and marketing efforts, has led to changes to the Company's cost structure as well as maintaining and improving operating income margins. With our deployment of the FiOS network, we expect to realize savings in annual, ongoing operating expenses as a result of efficiencies gained from fiber network facilities. As the deployment of the FiOS network gains scale and installation and automation improvements occur, costs per home connected are expected to decline. Since the merger with MCI, we have gained operational benefits from sales force and product and systems integration initiatives. Workforce levels in 2007 decreased to 235,000 compared to 238,000 in 2006, primarily from a decrease at Wireline due to continued productivity improvements and merger synergy savings, partially offset by an increase in headcount at Wireless.

• **Customer Experience** - Our goal is to provide the best customer experience possible and to be the leading company in customer service in every market we serve. We view superior product offerings and customer service experiences as a competitive differentiator and a catalyst to growing revenues and gaining market share. During 2007, our Company received citations for superior products and customer service, and we continued these initiatives to enhance the value of our products and services. We are developing and marketing innovative product bundles to include local wireline, long-distance, wireless and broadband services for consumer and general business retail customers. These efforts will help counter the effects of competition and technology substitution that have resulted in access line losses, and will enable us to grow revenues. Also at Wireline, we continued to roll out next-generation global IP networks to meet the ongoing global enterprise market shift to IP-based products and services. Deployment of new strategic service offerings - including expansion of our VoIP and international Ethernet capabilities, the introduction of cutting edge video and web-based conferencing capabilities, and enhancements to our virtual private network portfolio - will allow us to continue to gain share in the enterprise market. In addition, during 2007 we acquired a security-services firm that enhanced our managed information security services offerings to large-business and government customers worldwide. At Domestic Wireless, we continue to execute on the fundamentals of our network superiority and value proposition to deliver growth for our business and provide new and innovative products and services, such as Broadband Access, our EV-DO service. We also continue to expand our wireless data, messaging and multi-media offerings for both consumer and business customers and take advantage of the growing demand for wireless data services.

• **Performance-Based Culture** - We embrace a culture of corporate-wide accountability, based on individual and team objectives that are performance-based and tied to these imperatives. Key objectives of our compensation programs are pay-for-performance and the alignment of executives' and shareowners' long-term interests. We also employ a highly diverse workforce, since respect for diversity is an integral part of Verizon's culture and a critical element of our competitive success.

We create value for our shareowners by investing the cash flows generated by the business in opportunities and

transactions that support these strategic imperatives, thereby increasing customer satisfaction and usage of our products and services. In addition, we use our cash flows to repurchase shares and maintain and grow our dividend payout to shareowners. Verizon's total debt decreased by \$5,204 million to \$31,157 million as of December 31, 2007 from December 31, 2006. Reflecting continued strong cash flows and confidence in Verizon's business model, Verizon's Board of Directors increased the Company's quarterly dividend 6.2% during the third quarter of 2007. Verizon's ratio of debt to debt combined with shareowners' equity was 38.1% as of December 31, 2007 compared with 42.8% as of December 31, 2006. During 2007, we repurchased \$2,843 million of our common stock as part of our previously announced share buyback program. We plan to continue our share buyback program in 2008. Verizon's cash and cash equivalents at December 31, 2007 of \$1,153 million decreased by \$2,066 million from \$3,219 million at December 31, 2006.

As discussed in the "Recent Developments" section beginning on page 33, in January 2007, Verizon announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) that will result in Verizon establishing a separate entity for its local exchange access lines and related business assets in Maine, New Hampshire and Vermont, spinning off that new entity to Verizon's shareowners, and immediately merging it with and into FairPoint. Based upon the number of shares (as adjusted) and closing price of FairPoint common stock on the date immediately prior to the announcement of the merger, the estimated total value to be received by Verizon and its shareowners in exchange for these operations was approximately \$2,715 million. The actual total value to be received by Verizon and its shareowners will be determined based on the number of shares (as adjusted) and price of FairPoint common stock on the date of the closing of the merger, and is expected to be less than \$2,715 million.

Consolidated Results of Operations

In this section, we discuss our overall results of operations and highlight items that are not included in our business segment results. As a result of the spin-off of our domestic print and Internet yellow pages directories business, which was included in the Information Services segment, and the sale of our interests in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) and Verizon Dominicana, each of which was included in the International segment, the operations of our former domestic print and Internet yellow pages directories business, Verizon Dominicana and TELPRI are reported as discontinued operations and assets held for sale. Accordingly, we currently have two reportable segments, which we operate and manage as strategic business units and organize by products and services. Our segments are Wireline and Domestic Wireless. Included in our Wireline results of operations are the results of the former MCI business subsequent to the close of the merger on January 6, 2006.

This section and the following "Segment Results of Operations" section also highlight and describe those items of a non-recurring nature separately to ensure consistency of presentation. In the following section, we review the performance of our two reportable segments. We exclude the effects of certain items that management does not consider in assessing segment performance, due primarily to their non-recurring and/or non-operational nature as discussed below and in the "Other Consolidated Results" and "Other Items" sections. We believe that this presentation will assist readers in better understanding our results of operations and trends from period to period.

Consolidated Revenues

(dollars in millions)									
Years Ended December 31,	2007	2006	% Change	2006					
	2005	% Change							
Wireline									

Verizon Telecom	\$ 31,926	\$ 32,938		\$ 32,938
	\$ 31,694			
Verizon Business	21,236	20,678		20,678
	7,771			
Intrasegment eliminations	(2,846)	(2,888)		(2,888)
	(1,849)			
	50,316	50,728	(0.8)	50,728
	37,616	34.9		
Domestic Wireless	43,882	38,043	15.3	38,043
	32,301	17.8		
Corporate & Other	(729)	(589)	23.8	(589)
	(579)	1.7		
Revenues of Hawaii operations sold	-	-	-	-
	180	(100.0)		
Consolidated Revenues	\$ 93,469	\$ 88,182	6.0	\$ 88,182
	\$ 69,518	26.8		

2007 Compared to 2006

Consolidated revenues in 2007 increased by \$5,287 million, or 6.0% compared to 2006. This increase was primarily the result of continued strong growth at Domestic Wireless.

Wireline's revenues in 2007 decreased \$412 million, or 0.8% compared to 2006, primarily driven by lower demand and usage of our basic local exchange and accompanying services, partially offset by continued growth from broadband and strategic services. During 2007, we added 1,253,000 new broadband connections, an increase of 17.9%, including 854,000 for FiOS, for a total of 8,235,000 lines at December 31, 2007. In addition, we added 736,000 FiOS TV customers in 2007, for a total of 943,000 at December 31, 2007. Revenues at Verizon Business increased during 2007 compared to 2006 primarily due to higher demand for strategic products. These increases were offset by a decline in voice revenues at Verizon Telecom due to a 3.6 million decline in subscribers resulting from competition and technology substitution, such as wireless and VoIP, including those subscribers who have migrated to our other service offerings.

Domestic Wireless's revenues in 2007 increased by \$5,839 million, or 15.3% compared to 2006 due to increases in service revenues, which include data revenues, and equipment and other revenue. Equipment and other revenue increased principally as a result of increases in the number of existing customers upgrading their wireless devices. Total data revenues increased by \$2,911 million, or 65.0% in 2007 compared to 2006. There were approximately 65.7 million total Domestic Wireless customers as of December 31, 2007, an increase of 11.3% from December 31, 2006. Domestic Wireless's retail customer base as of December 31, 2007 was approximately 63.7 million, a 12.2% increase from 2006, and represented approximately 97% of its total customer base. Average total service revenue per customer (ARPU) increased by 2.3% to \$50.96 in 2007 compared to 2006, primarily attributable to increases in data revenue per customer driven by increased use of our messaging and other data services. Retail ARPU increased by 2.2% to \$51.57 in 2007 compared to 2006.

2006 Compared to 2005

Consolidated revenues in 2006 were higher by \$18,664 million, or 26.8% compared to 2005 revenues. This increase was primarily the result of significantly higher revenues at Wireline and Domestic Wireless.

Wireline's revenues in 2006 increased by \$13,112 million, or 34.9% compared to 2005 primarily due to the acquisition of MCI and, to a lesser extent, growth from broadband and long distance services. We added 1.8

million new broadband connections, for a total of 7.0 million lines in service at December 31, 2006, an increase of 35.7% compared to 5.1 million lines in service at December 31, 2005. The number of retail service plans continued to stimulate growth in long distance services, as the number of packages reached 7.9 million at December 31, 2006, representing a 44.1% increase from December 31, 2005. These increases were partially offset by declines in wholesale revenues at Verizon Telecom due to subscriber losses resulting from technology substitution, including wireless and VoIP. Wholesale revenues at Verizon Telecom declined by \$748 million, or 8.2% in 2006 compared to similar periods in 2005 primarily due to the exclusion of affiliated access revenues billed to the former MCI mass market entities in 2006. Revenues at Verizon Business increased primarily due to the acquisition of MCI.

Domestic Wireless's revenues increased by \$5,742 million, or 17.8% compared to 2005 due to increases in service revenues (which include data revenues) and equipment and other revenue. Data revenues increased by \$2,232 million or 99.5% compared to 2005. Domestic Wireless ended 2006 with 59.1 million customers, an increase of 15.0% over 2005. Domestic Wireless's retail customer base as of December 31, 2006 was approximately 56.8 million, a 15.9% increase over December 31, 2005, and represented approximately 96.2% of our total customer base. ARPU increased by 0.6% to \$49.80 in 2006 compared to 2005, primarily attributable to increases in data revenue per customer driven by increased use of our messaging and other data services. Retail ARPU increased by 0.7% to \$50.44 for 2006 compared to 2005.

The \$180 million decrease in revenues from Hawaii operations from 2006 to 2005 resulted from the sale of our wireline and directory businesses in Hawaii during 2005. Verizon Hawaii Inc., which operated approximately 700,000 switched access lines, as well as the services and assets of Verizon Long Distance, Verizon Online, Verizon Information Services and Verizon Select Services Inc. in Hawaii, were sold to an affiliate of The Carlyle Group for \$1,326 million in cash proceeds. In connection with this sale, we recorded a net pretax gain of \$530 million (\$336 million after-tax, or \$.12 per diluted share) during the second quarter of 2005.

Consolidated Operating Expenses				
	2007	2006	% Change	2006
(dollars in millions)				
Years Ended December 31,	2007	2006	% Change	2006
	2005		% Change	
Cost of services and sales	\$ 37,547	\$ 35,309	6.3	\$ 35,309
	\$ 24,409		44.7	
Selling, general and administrative expense	25,967	24,955	4.1	24,955
	19,443		28.3	
Depreciation and amortization expense	14,377	14,545	(1.2)	14,545
	13,615		6.8	
Sales of businesses, net	-	-	-	-
	(530)		(100.0)	
Consolidated Operating Expenses	\$ 77,891	\$74,809	4.1	\$ 74,809
	\$ 56,937		31.4	

2007 Compared to 2006

Cost of Services and Sales

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits, materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support, costs to support our outsourcing contracts and technical facilities

and contributions to the universal service fund. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expense.

Consolidated cost of services and sales in 2007 increased \$2,238 million, or 6.3% compared to 2006, primarily as a result of higher wireless network costs and wireless equipment costs, as well as higher costs associated with Wireline's growth businesses. The increase was partially offset by the impact of productivity improvement initiatives and decreases in net pension and other postretirement benefit costs.

The higher wireless network costs were caused by increased network usage relating to both voice and data services in 2007 compared to 2006, partially offset by decreased local interconnection, long distance and roaming rates. Cost of wireless equipment sales increased in 2007 compared to 2006, primarily as a result of an increase in wireless devices sold due to an increase in equipment upgrades.

Consolidated operating expenses in 2007 and 2006 primarily include \$32 million and \$25 million, respectively, of costs associated with the integration of MCI into our wireline business.

Selling, General and Administrative Expense

Selling, general and administrative expense includes salaries and wages and benefits not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space.

Consolidated selling, general and administrative expense in 2007 increased \$1,012 million, or 4.1% compared to 2006. The increase was primarily attributable to higher salary and benefits expenses. Also contributing to the increase was higher sales commission expense at Domestic Wireless and higher advertising costs at Wireline. Partially offsetting the increases were lower bad debt expenses and cost reduction initiatives.

Consolidated operating expenses in 2007 included \$772 million for severance and related expenses as a result of workforce reductions that began in the fourth quarter of 2007 and are expected to occur throughout 2008 as well as adjustments to our actuarial assumptions for severance to align with future expectations, \$146 million for merger integration costs, primarily comprised of Wireline systems integration activities related to businesses acquired and \$84 million related to the spin-off of local exchange and related business assets in Maine, New Hampshire and Vermont. In addition, during 2007 we contributed \$100 million of the proceeds from the sale of TELPRI to the Verizon Foundation.

Consolidated operating expenses in 2006 included \$56 million related to pension settlement losses incurred in connection with our benefit plans and a net pretax charge of \$369 million for employee severance and severance-related activities in connection with the involuntary separation of approximately 4,100 employees who were separated in 2006. Consolidated operating expenses in 2006 also included \$207 million of merger integration costs, primarily for advertising and other costs related to re-branding initiatives and systems integration activities, and a net pretax charge of \$184 million for Verizon Center relocation costs.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased \$168 million, or 1.2% in 2007 compared to 2006. The decrease was primarily due to lower rates of depreciation as a result of changes in the estimated useful lives of certain asset classes at Wireline and fully amortized customer lists at Domestic Wireless, partially offset by growth in depreciable telephone plant as a result of increased capital expenditures.

2006 Compared to 2005

Cost of Services and Sales

Cost of services and sales increased by \$10,900 million, or 44.7% in 2006 compared to 2005. This increase was principally driven by higher costs attributable to the inclusion of the former MCI operations in the Wireline segment subsequent to the completion of the merger, and to a lesser extent higher wireless network costs, increases in wireless equipment costs and increases in pension and other postretirement benefit costs, partially offset by the net impact of productivity improvement initiatives.

The higher wireless network costs were caused by increased network usage relating to both voice and data services in 2006 compared to 2005, partially offset by decreased roaming, local interconnection and long distance rates. Cost of wireless equipment sales increased in 2006 compared to 2005 primarily as a result of an increase in wireless devices sold due to an increase in gross activations and equipment upgrades as well as an increase in cost per unit.

Costs in these periods were also impacted by increased pension and other postretirement benefit costs. The overall impact of the 2006 assumptions, combined with the impact of lower than expected actual asset returns over the past several years, resulted in pension and other postretirement benefit expense of approximately \$1,377 million in 2006 compared to net pension and postretirement benefit expense of \$1,231 million in 2005. Consolidated operating expenses in 2006 included \$25 million of merger integration costs related to the acquisition of MCI.

Selling, General and Administrative Expense

Selling, general and administrative expense increased by \$5,512 million, or 28.3% in 2006 compared to 2005. This increase was driven by the inclusion of the former MCI operations in the Wireline segment subsequent to the completion of the merger, increases in the Domestic Wireless segment primarily related to increased salary and benefits expenses, and non-operational charges.

Consolidated operating expenses in 2006 included \$56 million related to pension settlement losses incurred in connection with our benefit plans, a net pretax charge of \$369 million for employee severance and severance-related activities in connection with the involuntary separation of approximately 4,100 employees who were separated in 2006. Consolidated operating expenses in 2006 also included \$207 million of merger integration costs primarily for advertising and other costs related to re-branding initiatives and systems integration activities, and a net pretax charge of \$184 million for Verizon Center relocation costs. Consolidated operating expenses in 2005 included a pretax impairment charge of \$125 million pertaining to our leasing operations for airplanes leased to airlines experiencing financial difficulties, a net pretax charge of \$98 million related to the restructuring of the Verizon management retirement benefit plans and a pretax charge of \$59 million associated with employee severance costs and severance-related activities in connection with the voluntary separation program for surplus union-represented employees.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by \$930 million, or 6.8% in 2006 compared to 2005. This increase was primarily due to higher depreciable and amortizable asset bases as a result of the MCI merger and, to a lesser extent, increased capital expenditures.

Other Consolidated Results									
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Equity in Earnings of Unconsolidated Businesses

--	--	--	--	--	--	--	--	--	--

	(dollars in millions)			
Years Ended December 31,	2007			
	2006	2005		
Vodafone Omnitel	\$ 597			
	\$ 703			
	\$ 741			
CANTV	-			
	182	53		
Other	(12)			
	(112)			
	(108)			
	\$ 585			
	\$ 773			
	\$ 686			

Equity in earnings of unconsolidated businesses decreased by \$188 million, or 24.3% in 2007 compared to 2006. The decrease is primarily driven by the nationalization of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) during 2007, as well as the effect of lower tax benefits at Vodafone Omnitel N.V. (Vodafone Omnitel).

Equity in earnings of unconsolidated businesses increased by \$87 million, or 12.7% in 2006 compared to 2005. The increase is primarily due to additional pension liabilities that CANTV recognized in 2005, as well as the effect of favorable operating results and lower taxes in 2006. In addition, the increase reflects our proportionate share, or \$85 million, of a tax benefit at Vodafone Omnitel in the third quarter of 2006, partially offset by a similar benefit recorded in the third quarter of 2005 of \$76 million. This was offset by lower tax benefits and lower operating results at Vodafone Omnitel.

Other Income and (Expense), Net

	(dollars in millions)			
Years Ended December 31,	2007			
	2006	2005		
Interest income	\$ 168			
	\$ 201			
	\$ 103			
Foreign exchange gains (losses), net	14			
	(3)			
	11			
Other, net	29			
	197			

Total		\$ 211			
		\$ 395			
		\$ 311			

Other Income and (Expense), Net in 2007 decreased \$184 million, or 46.6% compared to 2006. The decline was primarily attributable to a gain on the sale of a Wireline investment in the prior year, as well as decreased interest income as a result of lower average cash balances.

Other Income and (Expense), Net in 2006 increased \$84 million, or 27% compared to 2005. The increase was primarily due to increased interest income as a result of higher average cash balances coupled with higher interest rates in 2006 compared to 2005, partially offset by foreign exchange losses. Other, net in 2005 included a pretax gain on the sale of a small international business and investment gains and expenses related to the early retirement of debt.

Interest Expense

		(dollars in millions)			
Years Ended December 31,	2007		2006		
			2005		
Total interest costs on debt balances	\$ 2,258		\$		
2,811			\$ 2,481		
Less: capitalized interest costs	(429)	)	(462)		
	)		(352)		
)				
Interest expense	\$ 1,829		\$		
2,349			\$ 2,129		
Weighted average debt outstanding	\$ 32,964		\$		
41,500			\$ 39,152		
Effective interest rate	6.85%		6.78%		
			6.30%		

Total interest costs decreased \$553 million in 2007 compared to 2006, primarily due to a decrease in average debt levels, partially offset by slightly higher interest rates. Debt levels decreased primarily as a result of the approximately \$7.1 billion reduction from the spin-off of our domestic print and Internet yellow pages directories business in November 2006, as well as from debt redemptions and retirements funded by proceeds from the spin-off and the divestiture of our Caribbean and Latin American investments during 2006 and the first quarter of 2007.

In 2006, interest costs increased \$330 million compared to 2005 primarily due to an increase in average debt level of \$2,348 million and increased interest rates compared to 2005. Higher capital expenditures in 2006 contributed to higher capitalized interest costs.

Minority Interest

		(dollars in millions)	
Years Ended December 31,	2007	2006	2005
Minority interest	\$ 5,053	\$	
4,038	\$ 3,001		

The increase in minority interest in 2007 compared to 2006, and in 2006 compared to 2005, was due to the higher earnings at Domestic Wireless, which has a significant minority interest attributable to Vodafone Group Plc (Vodafone).

Provision for Income Taxes

		(dollars in millions)	
Years Ended December 31,	2007	2006	2005
Provision for income taxes	\$ 3,982	\$	
2,674	\$ 2,421		
Effective income tax rate	42.0%		
	32.8%		
	28.7%		

The effective income tax rate is calculated by dividing the provision for income taxes by income from continuing operations before the provision for income taxes. The effective income tax rate in 2007 compared to 2006 was higher primarily due to recording \$610 million of foreign and domestic taxes and expenses specifically relating to our share of Vodafone Omnitel distributable earnings. Verizon received a net distribution from Vodafone Omnitel in December 2007 of approximately \$2.1 billion and anticipates that it may receive an additional distribution from Vodafone Omnitel within the next twelve months. The 2007 rate was also increased due to higher state taxes in 2007 as compared to 2006, as well as greater benefits from foreign operations in 2006 compared to 2007. These increases were partially offset by lower expenses recorded for unrecognized tax benefits in 2007 as compared to 2006.

Our effective income tax rate in 2006 was higher than 2005 primarily as a result of favorable tax settlements and the recognition of capital loss carry forwards in 2005. These increases were partially offset by tax benefits from foreign operations and lower state taxes in 2006 compared to 2005.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in Note 16 to the consolidated financial statements.

Discontinued Operations

In accordance with Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we have classified TELPRI, Verizon Dominicana and our former domestic print and Internet yellow pages directories publishing operations as discontinued operations in the consolidated financial statements for all periods presented through the date of the spin-off or divestiture.

On March 30, 2007, after receiving Federal Communications Commission approval, we completed the sale of our 52% interest in TELPRI and received gross proceeds of approximately \$980 million. The sale resulted in a pretax gain of \$120 million (\$70 million after-tax, or \$.02 per diluted share). Additionally, \$100 million of the proceeds were contributed to the Verizon Foundation.

The sale of Verizon Dominicana closed in December 2006, and primarily due to taxes on previously unremitted earnings, a pretax gain of \$30 million resulted in an after-tax loss of \$541 million (or \$.18 per diluted share).

We completed the spin-off of our domestic print and Internet yellow pages directories business to our shareowners on November 17, 2006, which resulted in an \$8,695 million increase to contributed capital in shareowner's investment. In addition, we recorded pretax charges of \$117 million (\$101 million after-tax, or \$.03 per diluted share) for costs related to this spin-off. These costs primarily consisted of debt retirement costs, costs associated with accumulated vested benefits of employees, investment banking fees and other transaction costs related to the spin-off, which are included in discontinued operations.

Income from discontinued operations, net of tax, decreased by \$617 million, or 81.3% in 2007 compared to 2006. The decrease was primarily driven by the assets disposed of in 2006, partially offset by the after-tax gain recorded in 2007 on the sale of TELPRI. Income from discontinued operations, net of tax, decreased by \$611 million, or 44.6% in 2006 compared to 2005. This decrease was primarily due to the after-tax loss recorded in 2006 on the sale of Verizon Dominicana, partially offset by the cessation of depreciation on fixed assets held for sale.

Extraordinary Item

In January 2007, the Bolivarian Republic of Venezuela (the Republic) declared its intent to nationalize certain companies, including CANTV. On February 12, 2007, we entered into a Memorandum of Understanding (MOU) with the Republic, which provided that the Republic offer to purchase all of the equity securities of CANTV, including our 28.5% interest, through public tender offers in Venezuela and the United States. Under the terms of the MOU, the prices in the tender offers would be adjusted downward to reflect any dividends declared and paid subsequent to February 12, 2007. During the second quarter of 2007, the tender offers were completed and Verizon received an aggregate amount of approximately \$572 million, which included \$476 million from the tender offers as well as \$96 million of dividends declared and paid subsequent to the MOU. Based upon our investment balance in CANTV, we recorded an extraordinary loss of \$131 million, including taxes of \$38 million, or \$.05 per diluted share.

Cumulative Effect of Accounting Change

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payments*, utilizing the modified prospective method. The impact to Verizon primarily resulted from Domestic Wireless, for which we recorded a \$42 million (\$.01 per diluted share) cumulative effect of accounting change, net of taxes and after minority interest, to recognize the effect of initially measuring the outstanding liability for awards granted to Domestic Wireless employees at fair value utilizing a Black-Scholes model.

Segment Results of Operations

Wholesale	3,345						
	3,281						
	1,386						
International and Other	3,214						
	3,101			-			
Intrasegment Eliminations	(2,846))					
	(2,888))					
	(1,849))					
Total Wireline Operating Revenues	\$ 50,316			\$			
50,728				\$			
37,616							

Verizon Telecom

Mass Markets

Verizon Telecom's Mass Markets revenue includes local exchange (basic service and end-user access), value-added services, long distance, broadband services for residential and certain small business accounts and FiOS TV services. Also included are revenues generated from former MCI consumer and small business products and services. Long distance includes both regional toll services and long distance services. Broadband services include DSL and FiOS data.

Our Mass Markets revenue decreased by \$256 million, or 1.2% in 2007, and increased by \$2,190 million, or 10.9% in 2006. The decrease in 2007 was primarily driven by lower demand and usage of our basic local exchange and accompanying services, attributable to consumer subscriber losses. These losses are driven by competition and technology substitution, including wireless and VoIP. These decreases were partially offset by growth from broadband services and FiOS TV services and the inclusion of the results of operations of the former MCI business subsequent to the close of the merger on January 6, 2006, which helped drive the increase in 2006 over 2005.

Declines in switched access lines in service of 8.1% in 2007 and 7.6% in 2006 were mainly driven by the effects of competition and technology substitution. Residential retail access lines declined 9.5% in 2007 and 8.8% in 2006, as customers substituted wireless, VoIP, broadband and cable services for traditional voice landline services. At the same time, business retail access lines declined 4.0% in 2007 and 3.2% in 2006, primarily reflecting competition and a shift to high-speed access lines. The resulting total retail access line loss was 7.6% and 6.9% in 2007 and 2006, respectively. Access line losses include the loss of lines served by the former MCI.

We added 1,253,000 new broadband connections, including 854,000 for FiOS data in 2007. We ended 2007 with 8,235,000 broadband lines in service, including 1,541,000 for FiOS data, representing an increase of 17.9% compared to 6,982,000 lines in service at December 31, 2006. In addition, we added approximately 736,000 FiOS TV customers in 2007 and ended the year with a total of 943,000, an increase of approximately 355% compared to 207,000 FiOS TV customers at December 31, 2006. As of December 31, 2007, for FiOS data and FiOS TV, we achieved penetration rates of 20.6% and 16.0%, respectively, across the markets where we have been selling these services.

Wholesale

Wholesale revenues are earned from long distance and other competing carriers who use our local exchange facilities to provide services to their customers. Switched access revenues are generated from fixed and usage-based charges paid by carriers for access to our local network. Special access revenues are generated from carriers that buy dedicated local exchange capacity to support their private networks. Wholesale services also include local

wholesale revenues from unbundled network elements (UNEs) and interconnection revenues from competitive local exchange carriers (CLECs) and wireless carriers.

Wholesale revenues decreased by \$250 million, or 3.0% in 2007 and by \$748 million, or 8.2% in 2006, due to declines in switched access revenues and local wholesale revenues (UNEs) and, in 2006, the reduction in access revenues billed to the former MCI mass market entities. These declines were partially offset by increases in special access revenues.

Switched minutes of use (MOUs) declined in 2007 and 2006, reflecting the impact of access line loss and wireless substitution. Wholesale lines decreased by 15.9% in 2007 due to the ongoing impact of a 2005 decision by a major competitor to deemphasize their local market initiatives. Special access revenue growth reflects continuing demand for high-capacity, high-speed digital services, partially offset by lower demand for older, low-speed data products and services. As of December 31, 2007, customer demand for high-capacity and digital data services increased 8.2% compared to 2006.

The FCC regulates the rates that we charge customers for interstate access services. See "Other Factors That May Affect Future Results - Regulatory and Competitive Trends - FCC Regulation" for additional information on FCC rulemaking concerning federal access rates, universal service and certain broadband services.

Other Revenues

Other revenues include such services as operator services (including deaf relay services), public (coin) telephone, card services and supply sales, as well as dial around services including 10-10-987, 10-10-220, 1-800-COLLECT and Prepaid Cards.

Verizon Telecom's revenues from other services decreased by \$506 million, or 21.4% in 2007, and by \$198 million, or 7.7% in 2006. These revenue decreases were mainly due to the discontinuation of non-strategic product lines and reduced business volumes, partially offset by the inclusion of revenues from the former MCI in 2006.

Verizon Business

Enterprise Business

Our Enterprise Business channel distributes voice, data and Internet communications services to medium and large business customers, multi-national corporations, and state and federal government customers. In addition to communication services, this channel provides value-added services that make communications more secure, reliable and efficient. Enterprise Business provides managed network services for customers that outsource all or portions of their communications and information processing operations and data services such as Private IP, Private Line, Frame Relay and ATM services, both domestically and internationally.

Enterprise Business 2007 revenues of \$14,677 million increased by \$381 million, or 2.7%, as compared to 2006, primarily reflecting growth in demand for our strategic products, specifically IP services and managed services, as well as the inclusion of the results of operations of the former MCI business subsequent to the close of the merger on January 6, 2006. The IP suite of products is Enterprise Business' fastest growing set of product offerings and includes Private IP, IP VPN, Web Hosting and VoIP. Our Enterprise Business channel services many customer accounts that are moving from core data products to IP based products. This shift in technology is occurring across our customer base. Enterprise Business 2006 revenues of \$14,296 million increased \$7,911 million, or 123.9% compared to 2005 primarily due to the acquisition of MCI.

Wholesale

Our Wholesale revenues relate to domestic wholesale services and include all interexchange wholesale traffic sold in the United States, as well as internationally destined traffic that originates in the United States. The Wholesale

customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expense.

Cost of services and sales increased by \$453 million, or 1.8%, during 2007 compared to 2006. This increase was primarily due to higher costs associated with our growth businesses, annual wage increases and higher customer premise equipment costs, partially offset by productivity improvement initiatives and lower switched access lines in service, as well as lower wholesale voice connections.

Cost of services and sales increased by \$8,954 million, or 56.6%, in 2006 compared to 2005. These increases were primarily due to the MCI merger in 2006 partially offset by the net impact of other cost changes. Higher costs associated with our growth businesses and annual wage increases were partially offset by productivity improvement initiatives, which reduced cost of services and sales expenses in 2006. Expenses were also impacted by increased net pension and other postretirement benefit costs. The overall impact of the 2006 assumption changes, combined with the impact of lower than expected actual asset returns over the past several years, resulted in pension and other postretirement benefit expense of \$1,408 million in 2006 compared to net pension and postretirement benefit expense of \$1,248 million in 2005. Expenses decreased in 2006 due to the discontinuation of non-strategic businesses, including the termination of a large commercial inventory management contract in 2005.

Selling, General and Administrative Expense

Selling, general and administrative expense includes salaries, wages and benefits not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space.

Selling, general and administrative expenses in 2007 decreased by \$584 million or 4.9%, in 2007 compared to 2006. The decrease was primarily due to cost reduction initiatives, as well as the impact of gains from real estate sales and lower bad debt costs, partially offset by higher advertising costs and the inclusion of the results of operations of the former MCI business subsequent to the close of the merger on January 6, 2006.

Selling, general and administrative expenses in 2006 increased by \$3,610 million, or 44.0% compared to 2005. These increases were primarily due to the inclusion of expenses from the former MCI in 2006, partially offset by synergy savings resulting from our merger integration efforts, the impact of gains from real estate sales and lower bad debt costs.

Depreciation and Amortization Expense

The decrease in depreciation and amortization expense of \$406 million, or 4.2%, in 2007 compared to 2006 was mainly driven by lower rates of depreciation as a result of changes in the estimated useful lives of certain asset classes, partially offset by growth in depreciable telephone plant from increased capital spending. The increase in depreciation and amortization expense of \$789 million, or 9.0% in 2006 compared to 2005 was mainly driven by the acquisition of MCI's depreciable property and equipment and finite-lived intangible assets, including its customer lists and capitalized non-network software, and by growth in depreciable telephone plant and non-network software assets.

Segment Income

					(dollars in millions)
Years Ended December 31,	2007				
		2006			

to December 31, 2006, and increased average revenue per customer. Equipment and other revenue increased \$619 million, or 11.8% in 2007 compared to 2006, principally as a result of increases in the number of customers upgrading their wireless devices. Other revenue also increased due to increases in cost recovery surcharges and regulatory fees.

Total customers as of December 31, 2007 were 65.7 million, of which 97% were retail customers, compared to 59.1 million, of which 96% were retail customers at December 31, 2006. Retail (non-wholesale) customers are customers who are directly served and managed by Verizon Wireless and who buy its branded services. Our Domestic Wireless customer base as of December 31, 2007 was 93% retail postpaid compared to 92.6% retail postpaid at December 31, 2006. Total average monthly churn was 1.21% in 2007 compared to 1.17% in 2006.

Our Domestic Wireless segment ended 2007 with 63.7 million retail customers, an increase of 6.9 million net new retail customers or 12.2%, compared to December 31, 2006. Average monthly retail postpaid churn, the rate at which retail postpaid customers disconnect service, was 0.91% in 2007, unchanged compared to 2006.

Average retail service revenue per customer per month increased 2.2% to \$51.57 in 2007 compared to 2006. Average retail data service revenue per customer per month increased 43.9% in 2007 compared to 2006 driven by increased use of our messaging service, *VZAccess*, and other data services. Retail data revenues were \$7,309 million and accounted for 19.7% of retail service revenue in 2007, compared to \$4,445 million and 14.0% of retail service revenue in 2006.

Domestic Wireless's total operating revenues of \$38,043 million in 2006 increased \$5,742 million, or 17.8% compared to 2005. Service revenues of \$32,796 million were \$4,665 million, or 16.6% higher than 2005. The service revenue increase was primarily due to a 15.0% increase in customers as of December 31, 2006 compared to December 31, 2005, and increased average revenue per customer. Equipment and other revenue increased \$1,077 million, or 25.8% in 2006 compared to 2005 principally as a result of increases in the number and price of wireless devices sold. Other revenue also increased due to increases in regulatory fees, primarily the universal service fund and cost recovery surcharges.

Average retail service revenue per customer per month increased 0.7% to \$50.44 in 2006 compared to 2005. Average retail data service revenue per customer per month increased 71.3% in 2006, compared to 2005, driven by increased use of our messaging, *VZAccess* and other data services. However, Domestic Wireless experienced an increase in the proportion of customers on its Family Share price plans, which put downward pressure on average service revenue per customer during 2006. Retail data revenues were \$4,445 million and accounted for 14.0% of retail service revenue in 2006, compared to \$2,232 million and 8.2% of retail service revenue in 2005.

Operating Expenses

(dollars in millions)					
Years Ended December 31,	2007	2006			
2005					
Cost of services and sales	\$ 13,456	\$			
11,491	\$ 9,393				
Selling, general and administrative expense	13,477	12,039			
	10,768				
Depreciation and amortization expense	5,154	4,913			
	4,760				
	\$ 32,087	\$			

28,443

\$ 24,921

Cost of Services and Sales

Cost of services and sales, which are costs to operate the wireless network as well as the cost of roaming, long distance and equipment sales, increased by \$1,965 million, or 17.1% in 2007 compared to 2006. Cost of services increased due to higher wireless network costs in 2007 caused by increased network usage, partially offset by lower rates for long distance, roaming and local interconnection. Cost of equipment sales grew by 20.2% in 2007 compared to 2006. The increase was primarily attributed to an increase in equipment upgrades, together with an increase in cost per unit as a result of increased sales of higher cost advanced wireless devices.

Cost of services and sales increased by \$2,098 million, or 22.3% in 2006 compared to 2005. This increase was primarily due to higher wireless network costs in 2006 caused by increased network usage relating to both voice and data services and an increase in cost of equipment sales driven by an increase in wireless devices sold, resulting from an increase in equipment upgrades, together with an increase in cost per unit in 2006.

Selling, General and Administrative Expense

Selling, general and administrative expense increased by \$1,438 million, or 11.9% in 2007 compared to 2006. This increase was primarily due to an increase in salary and benefits expense of \$641 million, resulting from an increase in employees in the sales and customer care areas, and higher per employee salary and benefit costs. Sales commissions expense in both our direct and indirect channels increased by \$147 million in 2007 compared to 2006, primarily as a result of an increase in customer renewals and equipment upgrades. Advertising and promotion expense increased \$144 million in 2007, compared to 2006. Also contributing to the increase were higher costs associated with regulatory fees, which increased by \$127 million in 2007.

Selling, general and administrative expense increased by \$1,271 million, or 11.8% in 2006 compared to 2005. This increase was primarily due to an increase in salary and benefits expense, as well as advertising and promotion, and regulatory fee increases, compared to 2005.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by \$241 million, or 4.9% in 2007 compared to 2006 and increased by \$153 million, or 3.2% in 2006 compared to 2005. These increases were primarily due to an increase in depreciable assets. Partially offsetting this increase in 2007 was lower amortization expense resulting from customer lists becoming fully amortized during 2006.

Segment Income

					(dollars in millions)
Years Ended December 31,	2007				
	2006				
	2005				
Segment Income	\$ 3,794				
	\$ 2,976				
	\$ 2,219				

Segment income increased by \$818 million, or 27.5% in 2007 compared to 2006 and increased by \$757 million, or

34.1% in 2006 compared to 2005, primarily as a result of the after-tax impact of operating revenues and operating expenses described above, partially offset by higher minority interest expense. Segment income in 2006 excludes \$42 million after-tax due to the adoption of SFAS No. 123(R).

Increases in minority interest expense in 2007 and 2006 were due to the increased income of the wireless joint venture and the significant minority interest attributable to Vodafone.

Other Items

Merger Integration Costs

In 2007 and 2006, we recorded pretax charges of \$178 million (\$112 million after-tax, or \$.04 per diluted share) and \$232 million (\$146 million after-tax, or \$.05 per diluted share), respectively, primarily associated with the MCI acquisition in 2006 that were comprised of advertising and other costs related to re-branding initiatives, facility exit costs and systems integration activities.

Tax Matters

In December 2007, Verizon received a net distribution from Vodafone Omnitel of approximately \$2.1 billion and we anticipate that we may receive an additional distribution from Vodafone Omnitel within the next twelve months. As a result, we recorded \$610 million (\$.21 per diluted share) of foreign and domestic taxes and expenses specifically relating to our share of Vodafone Omnitel's distributable earnings.

During 2005, we recorded tax benefits of \$336 million (\$.12 per diluted share) in connection with the utilization of prior year loss carry forwards. As a result of the capital gain realized in 2005 in connection with the sale of our Hawaii businesses, we recorded a tax benefit of \$242 million related to the capital losses incurred in previous years.

Also during 2005, we recorded a net tax provision of \$206 million (\$.07 per diluted share) related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004, for two of our foreign investments.

Facility and Employee-Related Items

During the fourth quarter of 2007, we recorded a charge of \$772 million (\$477 million after-tax, or \$.16 per diluted share) primarily in connection with workforce reductions of 9,000 employees and related charges, 4,000 of whom were terminated in the fourth quarter of 2007 with the remaining reductions expected to occur throughout 2008. In addition, we adjusted our actuarial assumptions for severance to align with future expectations.

During 2006, we recorded net pretax severance, pension and benefits charges of \$425 million (\$258 million after-tax, or \$.09 per diluted share). These charges included net pretax pension settlement losses of \$56 million (\$26 million after-tax, or \$.01 per diluted share) related to employees that received lump-sum distributions primarily resulting from our separation plans. These charges were recorded in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination* (SFAS No. 88), which requires that settlement losses be recorded once prescribed payment thresholds have been reached. Also included are pretax charges of \$369 million (\$228 million after-tax, or \$.08 per diluted share), for employee severance and severance-related costs in connection with the involuntary separation of approximately 4,100

employees. In addition, during 2005 we recorded a charge of \$59 million (\$36 million after-tax, or \$.01 per diluted share) associated with employee severance costs and severance-related activities in connection with the voluntary separation program for surplus union-represented employees.

During 2006, we recorded pretax charges of \$184 million (\$118 million after-tax, or \$.04 per diluted share) in connection with the relocation of employees and business operations to Verizon Center in Basking Ridge, New Jersey. During 2005, we recorded a net pretax gain of \$18 million (\$8 million after-tax) in connection with the relocation, including a pretax gain of \$120 million (\$72 million after-tax, or \$.03 per diluted share) related to the sale of a New York City office building, partially offset by a pretax charge of \$102 million (\$64 million after-tax, or \$.02 per diluted share), primarily associated with relocation, employee severance and related activities.

During 2005, we reported a net pretax charge of \$98 million (\$59 million after-tax, or \$.02 per diluted share) related to the restructuring of the Verizon management retirement benefit plans. This pretax charge was recorded in accordance with SFAS No. 88, and SFAS No. 106, *Employers' Accounting for the Postretirement Benefits Other Than Pensions* (SFAS No. 106) and includes the unamortized cost of prior pension enhancements of \$430 million offset partially by a pretax curtailment gain of \$332 million related to retiree medical benefits. In connection with this restructuring, management employees: no longer earn pension benefits or earn service towards the company retiree medical subsidy after June, 2006; received an 18-month enhancement of the value of their pension and retiree medical subsidy; and receive a higher savings plan matching contribution.

Other

In 2006, we recorded pretax charges of \$26 million (\$16 million after-tax, or \$.01 per diluted share) resulting from the extinguishment of debt assumed in connection with the completion of the MCI merger.

During 2005, we recorded pretax charges of \$139 million (\$133 million after-tax, or \$.05 per diluted share) including a pretax impairment charge of \$125 million (\$125 million after-tax, or \$.04 per diluted share) pertaining to aircraft leased to airlines involved in bankruptcy proceedings and a pretax charge of \$14 million (\$8 million after-tax, or less than \$.01 per diluted share) in connection with the early extinguishment of debt.

Consolidated Financial Condition

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Years Ended December 31,	2007		2006		
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2005

Cash Flows Provided By (Used In)					
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Operating Activities:					
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Continuing operations	\$ 26,309		\$		
23,030				\$ 20,444	

Discontinued operations	(570)			1,076	
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1,581

Investing Activities:					
Continuing operations	(16,865)	(17,422		
)		(18,136		
)				
Discontinued operations	757		1,806		
			(356		
)				
Financing activities:					
Continuing operations	(11,697	)	(5,752		
	)		(4,958		
)				
Discontinued operations	-		(279		
	)		(76		
Increase (Decrease) In Cash and Cash Equivalents	\$ (2,066)	\$		
2,459			\$ (1,501		
)				

We use the net cash generated from our operations to fund network expansion and modernization, repay external financing, pay dividends and invest in new businesses. Additional external financing is obtained when necessary. While our current liabilities typically exceed current assets, our sources of funds, primarily from operations and, to the extent necessary, from readily available external financing arrangements, are sufficient to meet ongoing operating and investing requirements. We expect that capital spending requirements will continue to be financed primarily through internally generated funds. Additional debt or equity financing may be needed to fund additional development activities or to maintain our capital structure to ensure our financial flexibility.

Cash Flows Provided By Operating Activities

Our primary source of funds continues to be cash generated from operations. In total, cash from operating activities in 2007 increased compared to the similar period of 2006. The increase was due to higher cash flow from continuing operations, partially offset by decreased cash flow from discontinued operations. The increase in cash flow from operating activities - continuing operations in 2007 compared to 2006 was primarily due to the distributions from Vodafone Omnitel and CANTV, increased operating cash flows from Domestic Wireless and lower interest payments on outstanding debt, partially offset by changes in working capital.

The decrease in cash flow from operating activities-discontinued operations in 2007 compared to 2006 was primarily due to income taxes paid in 2007 related to the fourth quarter 2006 disposition of Verizon Dominicana, as well as the disposal of the discontinued operations in the fourth quarter of 2006.

In 2006, the increase in cash from operating activities compared to 2005 was primarily due to higher earnings at Domestic Wireless, which included higher minority interest earnings, and lower dividends paid to minority partners. Total minority interest earnings, net of dividends paid to minority interest partners, was \$3.2 billion in 2006 compared to \$1.7 billion in 2005. In addition, higher operating cash flow in 2006 compared to 2005 was due to lower cash taxes paid in 2006, resulting from 2005 tax payments related to foreign operations and investments sold during the fourth quarter of 2004. Partially offsetting these increases were significant 2005 repatriations of

foreign earnings of unconsolidated businesses.

Operating cash flows from discontinued operations decreased \$505 million to \$1,076 million in 2006 from \$1,581 million in 2005 due to the completion of our domestic print and Internet yellow pages directories business spin-off on November 17, 2006 and the close of the sale of Verizon Dominicana on December 1, 2006, partially offset by the operating activities of the remaining assets held for sale.

Cash Flows Used In Investing Activities

Capital expenditures continue to be our primary use of cash flows from operations, as they facilitate the introduction of new products and services, enhance responsiveness to competitive challenges and increase the operating efficiency and productivity of our networks. Including capitalized software, we invested \$10,956 million in our Wireline business in 2007, compared to \$10,259 million and \$8,267 million in 2006 and 2005, respectively. We also invested \$6,503 million in our Domestic Wireless business in 2007, compared to \$6,618 million and \$6,484 million in 2006 and 2005, respectively. The increase in capital spending at Wireline is mainly driven by increased spending in high growth areas such as fiber optic to the premises. Capital spending at Domestic Wireless represents our continuing effort to invest in this high growth business.

In 2008, capital expenditures, including capitalized software, are expected to be lower than 2007 expenditures.

In 2007, we paid \$417 million, net of cash received, to acquire a security-services firm and \$180 million to purchase several wireless properties and licenses. In 2006, we invested \$1,422 million in acquisitions and investments in businesses, including \$2,809 million to acquire thirteen 20 MHz licenses in connection with the FCC Advanced Wireless Services auction and \$57 million to acquire other wireless properties. This was offset by MCI's cash balances of \$2,361 million we acquired at the date of the merger. In 2005, we invested \$4,684 million in acquisitions and investments in businesses, including \$3,003 million to acquire NextWave Telecom Inc. (NextWave) personal communications services licenses, \$641 million to acquire 63 broadband wireless licenses in connection with FCC auction 58, \$419 million to purchase Qwest Wireless, LLC's spectrum licenses and wireless network assets in several existing and new markets, \$230 million to purchase spectrum from MetroPCS, Inc. and \$297 million for other wireless properties and licenses. In 2005, we received cash proceeds of \$1,326 million in connection with the sale of Verizon's wireline operations in Hawaii.

Our short-term investments principally include cash equivalents held in trust accounts for payment of employee benefits. In 2007, 2006 and 2005, we invested \$1,693 million, \$1,915 million and \$1,955 million, respectively, in short-term investments, primarily to pre-fund active employees' health and welfare benefits. Proceeds from the sales of all short-term investments, principally for the payment of these benefits, were \$1,862 million, \$2,205 million and \$1,609 million in the years 2007, 2006 and 2005, respectively.

Other, net investing activities during 2007 primarily include cash proceeds of approximately \$800 million from property sales and sales of select non-strategic assets, as well as \$476 million from the disposition of our interest in CANTV. Other, net investing activities for 2006 primarily include cash proceeds of \$283 million from property sales. Other, net investing activities for 2005 primarily include a net investment of \$913 million for the purchase of 43.4 million shares of MCI common stock from eight entities affiliated with Carlos Slim Helú, offset by cash proceeds of \$713 million from property sales, including a New York City office building, and \$349 million of repatriated proceeds from the sales of European investments in prior years.

In 2007, investing activities of discontinued operations primarily included gross proceeds of approximately \$980 million in connection with the sale of TELPRI. In 2006, investing activities of discontinued operations included net pretax cash proceeds of \$2,042 million in connection with the sale of Verizon Dominicana. In 2005, investing activities of discontinued operations primarily related to capital expenditures related to discontinued operations.

Cash Flows Used In Financing Activities

In 2007, our total debt was reduced by \$5.2 billion, due to the repayment of approximately \$1.7 billion of Wireline debt, including the early repayment of previously guaranteed \$300 million 7% debentures issued by Verizon South Inc. and \$480 million 7% debentures issued by Verizon New England Inc., as well as approximately \$1.6 billion of other borrowings. Also, we redeemed \$1,580 million principal of our outstanding floating rate notes, which were called on January 8, 2007, and the \$500 million 7.90% debentures issued by GTE Corporation. Partially offsetting the reduction in total debt were cash proceeds of \$3,402 million in connection with fixed and floating rate debt issued during 2007.

Our total debt was reduced by \$1,896 million in 2006. We repaid \$6,838 million of Wireline debt, including premiums associated with the retirement of \$5,665 million of aggregate principal amount of long-term debt assumed in connection with the MCI merger. The Wireline repayments also included the early retirement/prepayment of \$697 million of long-term debt and \$155 million of other long-term debt at maturity. We repaid approximately \$2.5 billion of Domestic Wireless 5.375% fixed rate notes that matured on December 15, 2006. Also, we redeemed the \$1,375 million accreted principal of our remaining zero-coupon convertible notes and retired \$482 million of other corporate long-term debt at maturity. These repayments were partially offset by our issuance of long-term debt with a total aggregate principal amount of \$4 billion, resulting in cash proceeds of \$3,958 million, net of discounts, issuance costs and the receipt of cash proceeds related to hedges on the interest rate of an anticipated financing. In connection with the spin-off of our domestic print and Internet yellow pages directories business, we received net cash proceeds of approximately \$2 billion and retired debt in the aggregate principal amount of approximately \$7 billion.

Cash of \$240 million was used to reduce our total debt in 2005. We repaid \$1,533 million of Domestic Wireless, \$1,183 million of Wireline and \$1,109 million of Verizon corporate long-term debt. The Wireline debt repayment included the early retirement of \$350 million of long-term debt and \$806 million of other long-term debt at maturity. This decrease was largely offset by the issuance by Verizon corporate of long-term debt with a total principal amount of \$1,500 million, resulting in total cash proceeds of \$1,478 million, net of discounts and costs, and an increase in our short-term borrowings of \$2,098 million.

Our ratio of debt to debt combined with shareowners' equity was 38.1% at December 31, 2007 compared to 42.8% at December 31, 2006.

As of December 31, 2007, we had no bank borrowings outstanding. We also had approximately \$6.2 billion of unused bank lines of credit (including a \$6 billion three-year committed facility that expires in September 2009 and various other facilities totaling approximately \$400 million) and we had shelf registrations for the issuance of up to \$8 billion of unsecured debt securities. The debt securities of Verizon and our telephone subsidiaries continue to be accorded high ratings by primary rating agencies. In July 2007, S&P revised its outlook to stable from negative and affirmed its long term rating of A. Other long-term ratings of Verizon are: Moody's A3 with stable outlook; and Fitch A+ with stable outlook. The short-term ratings of Verizon are: Moody's P-2; S&P A-1; and Fitch F1.

We and our consolidated subsidiaries are in compliance with all of our debt covenants.

In February 2008, we issued \$4,000 million of fixed rate notes with varying maturities that resulted in cash proceeds of \$3,953 million, net of discounts and issuance costs.

As in prior years, dividend payments were a significant use of cash flows from operations. We continuously evaluate the level of our dividend payments by considering such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. During the first half of 2007, Verizon announced quarterly cash dividends of \$.405 per share. During the third quarter of 2007, we increased our dividend payments 6.2% to \$.43 per share from \$.405 per share. In the third and fourth quarters of 2007, Verizon declared a quarterly

cash dividend of \$.43 per share. In 2006 and 2005, Verizon declared quarterly cash dividends of \$.405 per share.

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans. On March 1, 2007, the Board of Directors determined that no additional common shares could be purchased under previously authorized share repurchase programs and gave authorization to repurchase up to 100 million common shares terminating no later than the close of business on February 28, 2010. During 2007, we repurchased \$2,843 million of our common stock. We plan to continue our share buyback program in 2008. Additionally, we received \$1,274 million of cash proceeds from the sale of common stock, primarily due to the exercise of stock options. On February 7, 2008, the Board of Directors replaced this share buy back program with a new program for the repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2011. The Board also determined that no additional shares were to be purchased under the prior program.

Increase (Decrease) In Cash and Cash Equivalents

Our cash and cash equivalents at December 31, 2007 totaled \$1,153 million, a \$2,066 million decrease compared to cash and cash equivalents at December 31, 2006. Our cash and cash equivalents at December 31, 2006 totaled \$3,219 million, a \$2,459 million increase compared to cash and cash equivalents at December 31, 2005 of \$760 million.

Employee Benefit Plan Funded Status and Contributions

We operate numerous qualified and nonqualified pension plans and other postretirement benefit plans. These plans primarily relate to our domestic business units. The majority of Verizon's pension plans are adequately funded. We contributed \$612 million, \$451 million and \$593 million in 2007, 2006 and 2005, respectively, to our qualified pension plans. We also contributed \$125 million, \$117 million and \$105 million to our nonqualified pension plans in 2007, 2006 and 2005, respectively.

Based on the funded status of the plans at December 31, 2007, we anticipate qualified pension trust contributions of \$350 million in 2008. Our estimate of required qualified pension trust contributions for 2009 is approximately \$300 million. Nonqualified pension contributions are estimated to be approximately \$130 million for both 2008 and 2009, respectively.

Contributions to our other postretirement benefit plans generally relate to payments for benefits on an as-incurred basis since the other postretirement benefit plans do not have funding requirements similar to the pension plans. We contributed \$1,048 million, \$1,099 million and \$1,040 million to our other postretirement benefit plans in 2007, 2006 and 2005, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately \$1,580 million in 2008 and \$1,770 million in 2009.

Refer to Note 1 in the consolidated financial statements for a discussion of the adoption of SFAS No. 158, which was effective December 31, 2006.

Leasing Arrangements

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of the portfolio along with telecommunications equipment, real estate property and other equipment. These leases have remaining terms up to 48 years as of December 31, 2007. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which

provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as financial losses.

As of December 31, 2007, letters of credit totaling \$225 million were executed in the normal course of business, which support several financing arrangements and payment obligations to third parties.

Market Risk

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in equity investment and commodity prices and changes in corporate tax rates. We employ risk management strategies using a variety of derivatives, including interest rate swap agreements, interest rate locks, foreign currency forwards and commodity swaps. We do not hold derivatives for trading purposes.

It is our general policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve our desired objectives in limiting our exposure to the various market risks. Our objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. We do not hedge our market risk exposure in a manner that would completely eliminate the effect of changes in interest rates, commodity prices and foreign exchange rates on our earnings. We do not expect that our net income, liquidity and cash flows will be materially affected by these risk management strategies.

Interest Rate Risk

The table that follows summarizes the fair values of our long-term debt and interest rate derivatives as of December 31, 2007 and 2006. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward shifts in the yield curve. Our sensitivity analysis does not include the fair values of our commercial paper and bank loans, if any, because they are not significantly affected by changes in market interest rates.

(dollars in millions)			
At December 31, 2007	Fair Value	Fair Value assuming +100 basis	Fair Value assuming -100 basis point shift
Long-term debt and interest rate derivatives	\$ 31,930	\$ 30,154	
	\$ 33,957		
At December 31, 2006	Fair Value	Fair Value assuming +100 basis	Fair Value assuming -100 basis point shift
Long-term debt and interest rate derivatives	\$ 33,569	\$ 31,724	
	\$ 35,607		

Foreign Currency Translation

The functional currency for our foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars are recorded as cumulative translation adjustments, which are included in Accumulated Other Comprehensive Loss in our consolidated balance sheets. The translation gains and losses of foreign currency transactions and balances are recorded in the consolidated statements of income in Other Income and (Expense), Net and Income from Discontinued Operations, Net of Tax. At December 31, 2007, our primary translation exposure was to the British Pound and the Euro.

During 2007, we entered into foreign currency forward contracts to hedge a portion of our net investment in Vodafone Omnitel. Changes in fair value of these contracts due to Euro exchange rate fluctuations are recognized in Accumulated Other Comprehensive Loss and partially offset the impact of foreign currency changes on the value of our net investment. As of December 31, 2007, Accumulated Other Comprehensive Loss includes unrecognized losses of approximately \$57 million (\$37 million after-tax) related to these hedge contracts, which along with the unrealized foreign currency translation balance on the investment hedged, remain in Accumulated Other Comprehensive Loss until the investment is sold. We have not hedged our accounting translation exposure to foreign currency fluctuations relative to the carrying value of our other investments.

Critical Accounting Estimates and Recent Accounting Pronouncements

Critical Accounting Estimates

A summary of the critical accounting estimates used in preparing our financial statements are as follows:

- Verizon’s plant, property and equipment balance represents a significant component of our consolidated assets. Depreciation expense on Verizon’s local telephone operations is principally based on the composite group remaining life method and straight-line composite rates, which provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. We depreciate other plant, property and equipment generally on a straight-line basis over the estimated useful life of the assets. Changes in the remaining useful lives of assets as a result of technological change or other changes in circumstances, including competitive factors in the markets where we operate, can have a significant impact on asset balances and depreciation expense.

- We maintain benefit plans for most of our employees, including pension and other postretirement benefit plans. In the aggregate, the fair value of pension plan assets exceeds benefit obligations, which contributes to pension plan income. Other postretirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant benefit plan assumptions, including the discount rate used, the long-term rate of return on plan assets and health care trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations (see “Consolidated Results of Operations - Consolidated Operating Expenses - Pension and Other Postretirement Benefits”). A sensitivity analysis of the impact of changes in these assumptions on the benefit obligations and expense (income) recorded as of December 31, 2007 and for the year then ended pertaining to Verizon’s pension and postretirement benefit plans is provided in the table below.

		(dollars in millions)	
		Percentage point change	Benefit

obligation increase (decrease) at December 31, 2007

Expense increase (decrease) for the year ended

December 31, 2007

Pension plans discount rate		+ 0.50	\$ (1,768)		
	\$ (64)				
		- 0.50	1,886			
	109					
Long-term rate of return on pension plan assets		+1.00	-			
	(374)				
		- 1.00	-			
	374					
Postretirement plans discount rate		+0.50	(1,442)		
	(117)				
		- 0.50	1,579			
	118					
Long-term rate of return on postretirement plan assets		+1.00	-			
	(37)				
		- 1.00	-			
	37					
Health care trend rates		+1.00	3,038			
	489					
		- 1.00	(2,512)		
	(378)				

• Our current and deferred income taxes, and associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards, acquisitions of businesses and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred income tax assets and the timing of income tax payments. Actual collections and payments may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances. We account for tax benefits taken or expected to be taken in our tax returns in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions.

• Goodwill and other intangible assets are a significant component of our consolidated assets. Wireline goodwill of \$4,900 million represents the largest component of our goodwill and, as required by SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), is periodically evaluated for impairment. The evaluation of Wireline goodwill for impairment is primarily based on a discounted cash flow model that includes estimates of future cash flows. There is inherent subjectivity involved in estimating future cash flows, which can have a material impact on the amount of any potential impairment. Wireless licenses of \$50,796 million represent the largest component of our intangible assets. Our wireless licenses are indefinite-lived intangible assets, and as required by SFAS No. 142, are not amortized but are periodically evaluated for impairment. Any impairment loss would be determined by comparing the aggregated fair value of the wireless licenses with the aggregated carrying value. The direct value approach is used to determine fair value by estimating future cash flows. There is inherent subjectivity involved in estimating future cash flows, which can have a material impact on the amount of any impairment.

Recent Accounting Pronouncements

Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)), to replace SFAS No. 141, *Business Combinations*. SFAS No. 141(R) requires use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and broadens the scope to all transactions and other events in which one entity obtains control over one or more other businesses. This statement is effective for business combinations or transactions entered into for fiscal years beginning on or after December 15, 2008. We are still evaluating the impact of SFAS No. 141(R), however, the adoption of this statement is not expected to have a material impact on our financial position or results of operations.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*, (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the retained interest and gain or loss when a subsidiary is deconsolidated. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. Upon the initial adoption of this statement we will change the classification and presentation of Noncontrolling Interest in our financial statements, which we currently refer to as minority interest. We are still evaluating the impact SFAS No. 160 will have, but we do not expect a material impact on our financial position or results of operations.

Fair Value Measurements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of SFAS 115* (SFAS No. 159), which permits but does not require us to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. As we will not elect to fair value any of our financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective January 1, 2008 will not have an impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position (FSP) 157-2 which delays the effective date of SFAS No. 157 for one year, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 and FSP 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We will elect a partial deferral of SFAS No. 157 under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating goodwill, other intangible assets, wireless licenses and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. The impact of partially adopting SFAS No. 157 effective January 1, 2008 will not be material to our financial statements.

Refer to Note 1 in the consolidated financial statements for a discussion of the accounting pronouncements adopted during 2007.

Other Factors That May Affect Future Results

Recent Developments

Rural Cellular Corporation

In late July 2007, Verizon Wireless announced that it had entered into an agreement to acquire Rural Cellular Corporation (Rural Cellular), for \$45 per share in cash (or approximately \$757 million). As a result of the acquisition, Verizon Wireless will assume Rural Cellular's outstanding debt. The total value of the transaction is approximately \$2.7 billion. Rural Cellular has more than 700,000 customers in markets adjacent to Verizon Wireless's existing customer service areas. Rural Cellular's networks are located in the states of Maine, Vermont, New Hampshire, New York, Massachusetts, Alabama, Mississippi, Minnesota, North Dakota, South Dakota, Wisconsin, Kansas, Idaho, Washington, and Oregon. Rural Cellular's shareholders approved the transaction on October 4, 2007. The acquisition, which is subject to regulatory approvals, is expected to close in the first half of 2008.

In a related transaction, on December 3, 2007, Verizon Wireless signed a definitive exchange agreement with AT&T. Under the terms of the agreement, Verizon Wireless will receive cellular operating markets in Madison and Mason, KY, and 10MHz PCS licenses in Las Vegas, NV; Buffalo, NY; Sunbury-Shamokin and Erie, PA; and Youngstown, OH. Verizon Wireless will also receive minority interests held by AT&T in three entities in which Verizon Wireless also holds an interest plus a cash payment. In exchange, Verizon Wireless will transfer to AT&T six cellular operating markets in Burlington, Franklin and the northern portion of Addison, VT; Franklin, NY; and Okanogan and Ferry, WA; and a cellular license for the Kentucky-6 market. The operating markets Verizon Wireless is exchanging are among those it is to acquire from Rural Cellular. The exchange with AT&T is subject to regulatory approvals and is expected to close in the first half of 2008.

Telephone Access Lines Spin-off

On January 16, 2007, we announced a definitive agreement with FairPoint that will result in Verizon establishing a separate entity for its local exchange and related business assets in Maine, New Hampshire and Vermont, spinning off that new entity into a newly formed company, known as Northern New England Spinco Inc. (Spinco), to Verizon's shareowners, and immediately merging it with and into FairPoint. These local exchange and business assets are included in Verizon's continuing operations. It is anticipated that as long as all conditions are satisfied and assuming completion of the related financing transactions, both the spin-off of Spinco to Verizon shareowners and the merger of Spinco with FairPoint will occur on March 31, 2008. Verizon's Board of Directors established a record date of March 7, 2008, and a closing date of March 31, 2008, for the proposed spin-off of shares of Spinco to Verizon shareowners.

During 2007, we recorded pretax charges of \$84 million (\$80 million after-tax, or \$.03 per diluted share) for costs incurred related to certain network and work center re-arrangements, the isolation and extraction of related business information, and other activities to separate the wireline facilities and operations in Maine, New Hampshire and Vermont from Verizon at the closing of the transaction, as well as professional advisory and legal fees in connection with this transaction.

Upon the closing of the transaction, Verizon shareowners will own approximately 60 percent of the new company, and FairPoint shareowners will own approximately 40 percent. Verizon Communications will not receive any shares in FairPoint as a result of the transaction. In connection with the merger, Verizon shareowners will receive one share of FairPoint stock for approximately every 53 shares of Verizon stock held as of the record date. The proposal relating to the merger was approved by the FairPoint shareowners in August 2007. Both the spin-off and merger are expected to qualify as tax-free transactions, except to the extent that cash is paid to Verizon shareowners in lieu of fractional shares.

Based upon the number of shares (as adjusted) and price of FairPoint common stock (NYSE: FRP) on the date of the announcement of the merger, the estimated total value to be received by Verizon and its shareowners in exchange for these operations was approximately \$2,715 million. This consisted of (a) approximately \$1,015 million of FairPoint common stock that was to be received by Verizon shareowners in the merger, and (b) \$1,700

million in value that was to be received by Verizon through a combination of cash distributions to Verizon and debt securities issued to Verizon prior to the spin-off. Verizon currently intends to exchange these newly issued debt securities for certain debt that was previously issued by Verizon, which would have the effect of reducing Verizon's then-outstanding debt. The actual total value to be received by Verizon and its shareowners will be determined in part based on the number of shares (as adjusted) and price of FairPoint common stock on the date of the closing of the merger. This value is now expected to be less than \$2,715 million because (a) FairPoint expects to issue approximately 54 million shares of common stock in the merger and the price of FairPoint common stock has declined since the announcement of the merger (the closing price of FairPoint common stock on the last business day prior to the announcement of the merger was \$18.54 per share) and (b) in connection with the regulatory approval process, Verizon currently expects to make additional contributions of approximately \$320 million to the entity that will merge with FairPoint.

Environmental Matters

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments may also be made based upon actual conditions discovered during the remediation at any of the sites requiring remediation.

New York Recovery Funding

In August 2002, President Bush signed the Supplemental Appropriations bill that included \$5.5 billion in New York recovery funding. Of that amount, approximately \$750 million was allocated to cover utility restoration and infrastructure rebuilding as a result of the September 11th terrorist attacks on lower Manhattan. These funds will be distributed through the Lower Manhattan Development Corporation following an application and audit process. As of September 2004, we had applied for reimbursement of approximately \$266 million under Category One and in 2004 and 2005 we applied for reimbursement of an additional \$139 million of Category Two losses. Category One funding relates to Emergency and Temporary Service Response while Category Two funding is for permanent restoration and infrastructure improvement. According to the plan, permanent restoration is reimbursed up to 75% of the loss. On November 3, 2005, we received the results of preliminary audit findings disallowing all but \$49.9 million of our \$266 million of Category One application. On December 8, 2005, we provided a detailed rebuttal to the preliminary audit findings. We received a copy of the final audit report for Verizon's Category One applications largely confirming the preliminary audit findings and, on January 4, 2007, we filed an appeal. That appeal, as well as our Category Two applications, are pending.

Regulatory and Competitive Trends

Competition and Regulation

Technological, regulatory and market changes have provided Verizon both new opportunities and challenges. These changes have allowed Verizon to offer new types of services in an increasingly competitive market. At the same time, they have allowed other service providers to broaden the scope of their own competitive offerings. Current and potential competitors for network services include other telephone companies, cable companies, wireless service providers, foreign telecommunications providers, satellite providers, electric utilities, Internet service providers, providers of VoIP services, and other companies that offer network services using a variety of technologies. Many of these companies have a strong market presence, brand recognition and existing customer

relationships, all of which contribute to intensifying competition and may affect our future revenue growth. Many of our competitors also remain subject to fewer regulatory constraints than Verizon.

We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new opportunities.

FCC Regulation

The FCC has jurisdiction over our interstate telecommunications services and other matters for which the FCC has jurisdiction under the Communications Act of 1934, as amended (Communications Act). The Communications Act generally provides that we may not charge unjust or unreasonable rates, or engage in unreasonable discrimination when we are providing services as a common carrier, and regulates some of the rates, terms and conditions under which we provide certain services. The FCC also has adopted regulations governing various aspects of our business including: (i) use and disclosure of customer proprietary network information; (ii) telemarketing; (iii) assignment of telephone numbers to customers; (iv) provision to law enforcement agencies of the capability to obtain call identifying information and call content information from calls pursuant to lawful process; (v) accessibility of services and equipment to individuals with disabilities if readily achievable; (vi) interconnection with the networks of other carriers; (vii) customers' ability to keep (or "port") their telephone numbers when switching to another carrier; and (viii) availability of back-up power. In addition, we pay various fees to support other FCC programs, such as the universal service program discussed below. Changes to these mandates, or the adoption of additional mandates, could require us to make changes to our operations or otherwise increase our costs of compliance.

Broadband

The FCC has adopted a series of orders that recognize the competitive nature of the broadband market and impose lesser regulatory requirements on broadband services and facilities than apply to narrowband or traditional telephone services. With respect to facilities, the FCC has determined that certain unbundling requirements that apply to narrowband facilities do not apply to broadband facilities such as fiber to the premise loops and packet switches. With respect to services, the FCC has concluded that broadband Internet access services offered by telephone companies and their affiliates qualify as largely deregulated information services. The same order also concluded that telephone companies may offer the underlying broadband transmission services that are used as an input to Internet access services through private carriage arrangements on negotiated commercial terms. The order was upheld on appeal. In addition, a Verizon petition asking the FCC to forbear from applying common carrier regulation to certain broadband services sold primarily to larger business customers when those services are not used for Internet access was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. The relief obtained through the forbearance petition has been upheld on appeal, but remains under challenge.

Video

The FCC has a body of rules that apply to cable operators under Title VI of the Communications Act of 1934, and these rules also generally apply to telephone companies that provide cable services over their networks. In addition, companies that provide cable service over a cable system generally must obtain a local cable franchise. On March 5, 2007, the FCC released an order setting forth parameters consistent with Section 621 of the Communications Act of 1934 and other federal law, on the timing and scope of franchise negotiations by local franchising authorities. The FCC found that some prior practices in the local franchise approval process constituted an unreasonable refusal to award a competitive local franchise under the requirements of federal law. This order is the subject of a pending appeal.

Interstate Access Charges and Intercarrier Compensation

The current framework for interstate access rates was established in the Coalition for Affordable Local and Long Distance Services (CALLS) plan which the FCC adopted on May 31, 2000. The CALLS plan has three main components. First, it establishes portable interstate access universal service support of \$650 million for the industry that replaces implicit support previously embedded in interstate access charges. Second, the plan simplifies the patchwork of common line charges into one subscriber line charge (SLC) and provides for de-averaging of the SLC by zones and class of customers. Third, the plan set into place a mechanism to transition to a set target of \$.0055 per minute for switched access services. Once that target rate is reached, local exchange carriers are no longer required to make further annual price cap reductions to their switched access prices. As a result of tariff adjustments which became effective in July 2003, virtually all of our switched access lines reached the \$.0055 benchmark.

The FCC currently is conducting a broad rulemaking proceeding to consider new rules governing intercarrier compensation including, but not limited to, access charges, compensation for Internet traffic and reciprocal compensation for local traffic. The FCC has sought

comments about intercarrier compensation in general and requested input on a number of specific reform proposals. The FCC also has pending before it issues relating to intercarrier compensation for dial-up Internet-bound traffic. The FCC previously found that this traffic is not subject to reciprocal compensation under Section 251(b)(5) of the Telecommunications Act of 1996. Instead, the FCC established federal rates per minute for this traffic that declined from \$.0015 to \$.0007 over a three-year period, established caps on the total minutes of this traffic subject to compensation in a state and required incumbent local exchange carriers to offer to both bill and pay reciprocal compensation for local traffic at the same rate as they are required to pay on Internet-bound traffic. The U.S. Court of Appeals for the D.C. Circuit rejected part of the FCC's rationale, but declined to vacate the order while it is on remand. As a result, pending further action by the FCC, the FCC's underlying order remains in effect. The FCC subsequently denied a petition to discontinue the \$.0007 rate cap on this traffic, but removed the caps on the total minutes of Internet-bound traffic subject to compensation. That decision has been upheld on appeal. Disputes also remain pending in a number of forums relating to the appropriate compensation for Internet-bound traffic during previous periods under the terms of our interconnection agreements with other carriers.

The FCC also is conducting a rulemaking proceeding to address the regulation of services that use Internet protocol. One of the issues raised in the rulemaking as well as in several petitions currently pending before the FCC addresses whether, and under what circumstances, access charges should apply to voice or other Internet protocol services. The FCC previously has held that one provider's peer-to-peer Internet protocol service that does not use the public switched network is an interstate information service and is not subject to access charges, while a service that utilizes Internet protocol for only one intermediate part of a call's transmission is a telecommunications service that is subject to access charges. Another petition asking the FCC to forbear from applying access charges to voice over Internet protocol services that are terminated on switched local exchange networks was withdrawn by the carrier that filed that petition. The FCC also declared the services offered by one provider of a voice over Internet protocol service to be jurisdictionally interstate. The FCC also stated that its conclusion would apply to other services with similar characteristics. On March 21, 2007, the Eighth Circuit Court of Appeals affirmed the FCC's Order.

The FCC also has adopted rules for special access services that provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met. More than half of special access revenues are now removed from price regulation. The FCC currently has a rulemaking proceeding underway to update the public record concerning its pricing flexibility rules and to determine whether any changes to those rules are warranted.

Universal Service

The FCC also has a body of rules implementing the universal service provisions of the Telecommunications Act of 1996, including rules governing support to rural and non-rural high-cost areas, support for low income subscribers and support for schools, libraries and rural health care. The FCC's current rules for support to high-cost areas served by larger "non-rural" local telephone companies were previously remanded by U.S. Court of Appeals for the

Tenth Circuit, which had found that the FCC had not adequately justified these rules. The FCC has initiated a rulemaking proceeding in response to the court's remand, but its rules remain in effect pending the results of the rulemaking. It is also considering modifications to the high-cost support system that could include a cap on the amount of support and other limits on what certain eligible carriers may receive. The FCC also has proceedings underway to evaluate possible changes to its current rules for assessing contributions to the universal service fund. As an interim step, in June 2006, the FCC ordered that providers of VoIP services are subject to federal universal service obligations. The FCC also increased the percentage of revenues subject to federal universal service obligations that wireless providers may use as a safe harbor. The substance of these orders was upheld on appeal in June 2007, but the Court did remand some more minor implementation issues back to the FCC. Any further change in the current assessment mechanism could result in a change in the contribution that local telephone companies, wireless carriers or others must make and that would have to be collected from customers.

Unbundling of Network Elements

Under Section 251 of the Telecommunications Act of 1996, incumbent local exchange carriers were required to provide competing carriers with access to components of their network on an unbundled basis, known as UNEs, where certain statutory standards are satisfied. The Telecommunications Act of 1996 also adopted a cost-based pricing standard for these UNEs, which the FCC interpreted as allowing it to impose a pricing standard known as "total element long run incremental cost" or "TELRIC." The FCC's rules defining the unbundled network elements that must be made available at TELRIC prices have been overturned on multiple occasions by the courts. In its most recent order issued in response to these court decisions, the FCC eliminated the requirement to unbundle mass market local switching on a nationwide basis, with the obligation to accept new orders ending as of the effective date of the order (March 11, 2005). The FCC also established a one year transition for existing UNE switching arrangements. For high-capacity transmission facilities, the FCC established criteria for determining whether high-capacity loops, transport or dark fiber transport must be unbundled in individual wire centers, and stated that these standards were only expected to affect a small number of wire centers. The FCC also eliminated the obligation to provide dark fiber loops and found that there is no obligation to provide UNEs exclusively for wireless or long distance service. In any instance where a particular high-capacity facility no longer has to be made available as a UNE, the FCC established a similar one year transition for any existing high-capacity loop or transport UNEs, and an 18 month transition for any existing dark fiber UNEs. This decision has been upheld on appeal.

As noted above, the FCC has concluded that the requirement under Section 251 of the Telecommunications Act of 1996 to provide unbundled network elements at TELRIC prices generally does not apply with respect to broadband facilities, such as fiber to the premises loops, the packet-switched capabilities of hybrid loops and packet switching. The FCC also has held that any separate unbundling obligations that may be imposed by Section 271 of the Telecommunications Act of 1996 do not apply to these same facilities. The decision with respect to Section 271 has been upheld on appeal and a petition for rehearing of that order was denied.

Wireless Services

The FCC regulates the licensing, construction, operation, acquisition and transfer of wireless communications systems, including the systems that Verizon Wireless operates, pursuant to the Communications Act, other legislation, and the FCC's rules. The FCC and Congress continuously consider changes to these laws and rules. Adoption of new laws or rules may raise the cost of providing service or require modification of Verizon Wireless' business plans or operations.

To use the radio frequency spectrum, wireless communications systems must be licensed by the FCC to operate the wireless network and mobile devices in assigned spectrum segments. Verizon Wireless holds FCC licenses to operate in several different radio services, including the cellular radiotelephone service, personal communications service, advanced wireless service, and point-to-point radio service. The technical and service rules, the specific

radio frequencies and amounts of spectrum we hold, and the sizes of the geographic areas we are authorized to operate in, vary for each of these services. However, all of the licenses Verizon Wireless holds allow it to use spectrum to provide a wide range of mobile and fixed communications services, including both voice and data services, and Verizon Wireless operates a seamless network that utilizes those licenses to provide services to customers. Because the FCC issues licenses for only a fixed time, generally 10 years, Verizon Wireless must periodically seek renewal of those licenses. Although the FCC has routinely renewed all of Verizon Wireless' licenses that have come up for renewal to date, challenges could be brought against the licenses in the future. If a wireless license were revoked or not renewed upon expiration, Verizon Wireless would not be permitted to provide services on the licensed spectrum in the area covered by that license.

The FCC has also imposed specific mandates on carriers that operate wireless communications systems, which increase Verizon Wireless' costs. These mandates include requirements that Verizon Wireless: (i) meet specific construction and geographic coverage requirements during the license term; (ii) meet technical operating standards that, among other things, limit the radio frequency radiation from mobile devices and antennas; (iii) deploy "Enhanced 911" wireless services that provide the wireless caller's number, location and other information upon request by a state or local public safety agency that handles 911 calls; (iv) provide backup electric power at most cell sites in the event electric utility service is disrupted; and (v) comply with regulations for the construction of transmitters and towers that, among other things, restrict siting of towers in environmentally sensitive locations and in places where the towers would affect a site listed or eligible for listing on the National Register of Historic Places. Changes to these mandates could require Verizon Wireless to make changes to operations or increase its costs of compliance.

The Communications Act imposes restrictions on foreign ownership of U.S. wireless systems. The FCC has approved the interest that Vodafone Group Plc holds, through various of its subsidiaries, in Verizon Wireless. The FCC may need to approve any increase in Vodafone's interest or the acquisition of an ownership interest by other foreign entities. In addition, as part of the FCC's approval of Vodafone's ownership interest, Verizon Wireless, Verizon and Vodafone entered into an agreement with the U.S. Department of Defense, Department of Justice and Federal Bureau of Investigation which imposes national security and law enforcement-related obligations on the ways in which Verizon Wireless stores information and otherwise conducts its business.

Verizon Wireless anticipates that it will need additional spectrum to meet future demand. It can meet spectrum needs by purchasing licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the FCC. Under the Communications Act, before Verizon Wireless can acquire a license from another licensee in order to expand its coverage or its spectrum capacity in a particular area, it must file an application with the FCC, and the FCC can grant the application only after a period for public notice and comment. This review process can delay acquisition of spectrum needed to expand services. The Communications Act also requires the FCC to award new licenses for most commercial wireless services through a competitive bidding process in which spectrum is awarded to bidders in an auction. Verizon Wireless participated in spectrum auctions to acquire licenses for personal communication service and most recently advanced wireless service. In addition, the FCC began conducting an auction of spectrum in the 700 MHz band on January 24, 2008. This spectrum is currently used for UHF television operations but by law those operations must cease no later than February 17, 2009. Verizon Wireless filed an application on December 3, 2007, to qualify as a bidder in this auction, and on January 14, 2008, the FCC announced that Verizon Wireless and 213 other applicants had qualified as eligible to bid in the auction. The FCC determined that bidding in this auction will be "anonymous," which means that prior to and during the course of the auction(s), the FCC will not make public any information about a specific applicant's upfront deposit or its bids. In addition, FCC rules restrict information that bidders may disclose about their participation in the auction. The FCC also adopted service rules that will impose costs on licensees that acquire the 700 MHz band spectrum, including minimum coverage mandates by specific dates during the license terms, and, for approximately one-third of the spectrum, "open access" requirements, which generally require licensees of that spectrum to allow customers to use devices and applications of their choice, subject to certain limits. The open access requirements are the subject of a pending appeal in which Verizon Wireless has intervened. The timing of future auctions, and the spectrum being sold, may not match Verizon Wireless' needs, and the company may not be able to secure the spectrum in the amounts and/or in the markets it seeks through the current or any future auction.

The FCC is also conducting several proceedings to explore making additional spectrum available for licensed and/or unlicensed use. These proceedings could increase radio interference to Verizon Wireless' operations from other spectrum users and could impact the ways in which it uses spectrum, the capacity of that spectrum to carry traffic, and the value of that spectrum.

State Regulation and Local Approvals

Telephone Operations

State public utility commissions regulate our telephone operations with respect to certain telecommunications intrastate rates and services and other matters. Our competitive local exchange carrier and long distance operations are generally classified as nondominant and lightly regulated the same as other similarly situated carriers. Our incumbent local exchange operations are generally classified as dominant. These latter operations predominantly are subject to alternative forms of regulation (AFORs) in the various states, although they remain subject to rate of return regulation in a few states. Arizona, Illinois, Nevada, New Hampshire, Oregon and Washington are rate of return regulated with various levels of pricing flexibility for competitive services. California, Connecticut, Delaware, the District of Columbia, Florida, Indiana, Maryland, Michigan, Maine, Massachusetts, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, West Virginia and Wisconsin are under AFORs with various levels of pricing flexibility, detariffing, and service quality standards. None of the AFORs include earnings regulation. In Idaho, Verizon has made the election under a recent statutory amendment into a deregulatory regime that phases out all price regulation.

Video

Companies that provide cable service over a cable system are typically subject to state and/or local cable television rules and regulations. As noted above, cable operators generally must obtain a local cable franchise from each local unit of government prior to providing cable service in that local area. Some states have recently enacted legislation that enables cable operators to apply for, and obtain, a single cable franchise at the state, rather than local, level. To date, Verizon has applied for and received state-issued franchises in California, Indiana, Florida, New Jersey, Texas and the unincorporated areas of Delaware. Virginia law provides us the option of entering a given franchise area using state standards if local franchise negotiations are unsuccessful.

Wireless Services

The rapid growth of the wireless industry has led to an increase in efforts by some state legislatures and state public utility commissions to regulate the industry in ways that may impose additional costs on Verizon Wireless. The Communications Act generally preempts regulation by state and local governments of the entry of, or the rates charged by, wireless carriers. Although a state may petition the FCC to allow it to impose rate regulation, no state has done so. In addition, the Communications Act does not prohibit the states from regulating the other "terms and conditions" of wireless service. While numerous state commissions do not currently have jurisdiction over wireless services, state legislatures may decide to grant them such jurisdiction, and those commissions that already have authority to impose regulations on wireless carriers may adopt new rules.

State efforts to regulate wireless services have included proposals to regulate customer billing, termination of service, trial periods for service, advertising, network outages, the use of handsets while driving, and the provision of emergency or alert services. Over the past several years, only a few states have imposed regulation in one or more of these areas, and in 2006 a federal appellate court struck down one such state statute, but Verizon Wireless expects these efforts to continue. Some states also impose their own universal service support regimes on wireless and other telecommunications carriers, and other states are considering whether to create such regimes.

Verizon Wireless (as well as AT&T (formerly Cingular) and Sprint-Nextel) is a party to an Assurance of Voluntary Compliance ("AVC") with 33 State Attorneys General. The AVC, which generally reflected Verizon Wireless's practices at the time it was entered into in July 2004, obligates the company to disclose certain rates and

terms during a sales transaction, to provide maps depicting coverage, and to comply with various requirements regarding advertising, billing, and other practices.

At the state and local level, wireless facilities are subject to zoning and land use regulation. Under the Communications Act, neither state nor local governments may categorically prohibit the construction of wireless facilities in any community or take actions, such as indefinite moratoria, which have the effect of prohibiting service. Nonetheless, securing state and local government approvals for new tower sites has been and is likely to continue to be a difficult, lengthy and expensive process. Finally, state and local governments continue to impose new or higher fees and taxes on wireless carriers.

Cautionary Statement Concerning Forward-Looking Statements

In this Annual Report on Form 10-K we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words “anticipates,” “believes,” “estimates,” “hopes” or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this Annual Report, could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- materially adverse changes in economic and industry conditions and labor matters, including workforce levels and labor negotiations, and any resulting financial and/or operational impact, in the markets served by us or by companies in which we have substantial investments;
- material changes in available technology, including disruption of our suppliers’ provisioning of critical products or services;
- the impact on our operations of natural or man-made disasters and any resulting financial impact not covered by insurance;
- technology substitution;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations;
- the final results of federal and state regulatory proceedings concerning our provision of retail and wholesale services and judicial review of those results;
- the effects of competition in our markets;
- the timing, scope and financial impact of our deployment of fiber-to-the-premises broadband technology;
- the ability of Verizon Wireless to continue to obtain sufficient spectrum resources;
- changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result

from changes in the accounting rules or their application, which could result in an impact on earnings;

• the ability to complete acquisitions and dispositions; and

• the extent and timing of our ability to obtain revenue enhancements and cost savings following our business combination with MCI, Inc.

Report of Management on Internal Control Over Financial Reporting

We, the management of Verizon Communications Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the company. Management has evaluated internal control over financial reporting of the company using the criteria for effective internal control established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2007. Based on this assessment, we believe that the internal control over financial reporting of the company is effective as of December 31, 2007. In connection with this assessment, there were no material weaknesses in the company's internal control over financial reporting identified by management.

The company's financial statements included in this annual report have been audited by Ernst & Young LLP, independent registered public accounting firm. Ernst & Young LLP has also provided an attestation report on the company's internal control over financial reporting.

/s/ Ivan G. Seidenberg		

Ivan G. Seidenberg
Chairman and Chief Executive Officer

/s/ Doreen A. Toben		

Doreen A. Toben
Executive Vice President and Chief Financial Officer

/s/ Thomas A. Bartlett		

Thomas A. Bartlett
Senior Vice President and Controller

	February 22, 2008	

Report of Independent Registered Public Accounting Firm on Financial Statements

To The Board of Directors and Shareowners of Verizon Communications Inc.:

We have audited the accompanying consolidated balance sheets of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2007 and 2006, and the related consolidated statements of income, cash flows and changes in shareowners' investment for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Verizon at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, Verizon changed its methods of accounting for uncertainty in income taxes and leveraged lease transactions effective January 1, 2007, stock-based compensation effective January 1, 2006 and pension and other post-retirement obligations effective December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Verizon's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2008 expressed an unqualified opinion thereon.

	Ernst & Young LLP	
	Ernst & Young LLP	
	New York, New York	
	February 22, 2008	

Consolidated Statements of Income Verizon Communications Inc. and Subsidiaries

) (2,421)

Income Before Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change				
	5,510		5,480	
			6,027	
Income from discontinued operations, net of tax	142		759	
	1,370			
Extraordinary item, net of tax	(131)	-	
	-			
Cumulative effect of accounting change, net of tax	-		(42)	
	-			
Net Income	\$ 5,521		\$ 6,197	
			\$ 7,397	

Basic Earnings Per Common Share ^(a)				
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Income before discontinued operations, extraordinary item and cumulative effect of accounting change				
	\$ 1.90		\$ 1.88	
			\$ 2.18	

Income from discontinued operations, net of tax	.05		.26	
	.50			
Extraordinary item, net of tax	(.05)	-	
	-			
Cumulative effect of accounting change, net of tax	-		(.01)	
	-			
Net Income	\$ 1.91		\$ 2.13	
			\$ 2.67	

Weighted-average shares outstanding (in millions)	2,898		2,912	
			2,766	

Diluted Earnings Per Common Share ^(a)				
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Income before discontinued operations, extraordinary item and cumulative effect of accounting change				
	\$ 1.90		\$ 1.88	
			\$ 2.16	

Income from discontinued operations, net of tax	.05		.26	
	.49			
Extraordinary item, net of tax	(.05)	-	
	-			
Cumulative effect of accounting change, net of tax	-		(.01)	
	-			

Net Income	\$	1.90		\$	2.12		
				\$	2.65		

Weighted-average shares outstanding (in millions)		2,902			2,938		
					2,817		

(1) Total per share amounts may not add due to rounding.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets Verizon Communications Inc. and Subsidiaries

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(dollars in millions, except per share amounts)

At December 31,		2007					
					2006		

Assets

Current assets

Cash and cash equivalents	\$	1,153					
	\$	3,219					

Short-term investments		2,244					
		2,434					

Accounts receivable, net of allowances of \$1,025 and \$1,139		11,736					
		10,891					

Inventories		1,729					
		1,514					

Assets held for sale		-					
		2,592					

Prepaid expenses and other		1,836					
		1,888					

Total current assets		18,698					
		22,538					

Plant, property and equipment		213,994					
		204,109					

Less accumulated depreciation		128,700					
		121,753					

		85,294					
		82,356					

Investments in unconsolidated businesses	3,372			
	4,868			
Wireless licenses	50,796			
	50,959			
Goodwill	5,245			
	5,655			
Other intangible assets, net	4,988			
	5,140			
Other assets	18,566			
	17,288			
Total assets	\$ 186,959			
	\$ 188,804			
Liabilities and Shareowners' Investment				
Current liabilities				
Debt maturing within one year	\$ 2,954			
	\$ 7,715			
Accounts payable and accrued liabilities	14,462			
	14,320			
Liabilities related to assets held for sale	-			
	2,154			
Other	7,325			
	8,091			
Total current liabilities	24,741			
	32,280			
Long-term debt	28,203			
	28,646			
Employee benefit obligations	29,960			
	30,779			
Deferred income taxes	14,784			
	16,270			
Other liabilities	6,402			
	3,957			
Minority interest	32,288			
	28,337			
Shareowners' investment				
Series preferred stock (\$.10 par value; none issued)	-			

		-			
Employee retirement benefits	1,720		1,923		
			1,695		
Deferred income taxes	408		(252)		
	)		(1,093)		
)				
Provision for uncollectible accounts	1,047		1,034		
			1,076		
Equity in earnings of unconsolidated businesses, net of dividends received	1,986		(731)		
	)		1,649		
Extraordinary item, net of tax	131		-		
			-		
Cumulative effect of accounting change, net of tax	-		42		
			-		
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses:					
Accounts receivable	(1,931)	)	(1,312)		
	)		(788)		
)				
Inventories	(255)	)	8		
			(236)		
)				
Other assets	(140)	)	52		
			(176)		
)				
Accounts payable and accrued liabilities	(567)	)	(383)		
	)		(899)		
)				
Other, net	4,012		1,366		
			(1,266)		
)				
Net cash provided by operating activities - continuing operations	26,309		23,030		
			20,444		
Net cash provided by (used in) operating activities - discontinued operations	(570)	)	1,076		
			1,581		
Net cash provided by operating activities	25,739		24,106		
			22,025		

Cash Flows from Investing Activities			
Capital expenditures (including capitalized software)	(17,538)	)	(17,101
	)		(14,964
))
Acquisitions, net of cash acquired, and investments	(763)	)	(1,422
	)		(4,684
))
Proceeds from disposition of businesses	-)	-
			1,326
Net change in short-term and other current investments	169	)	290
			(346
))
Other, net	1,267	)	811
			532
Net cash used in investing activities - continuing operations	(16,865)	)	(17,422
	)		(18,136
))
Net cash provided by (used in) investing activities - discontinued operations	757	)	1,806
			(356
))
Net cash used in investing activities	(16,108)	)	(15,616
	)		(18,492
))
Cash Flows from Financing Activities			
Proceeds from long-term borrowings	3,402	)	3,983
			1,487
Repayments of long-term borrowings and capital lease obligations	(5,503)	)	(11,233
	)		(3,825
))
Increase (decrease) in short-term obligations, excluding current maturities	(3,252)	)	7,944
			2,098
Dividends paid	(4,773)	)	(4,719
	)		(4,427
))
Proceeds from sale of common stock	1,274	)	174

	2,774,865	277					
Contributed Capital							
Balance at beginning of year		40,124			25,369		
		25,404					
Shares issued-employee and shareowner plans		58			(1		
		(24)		
Shares issued-MCI/Price acquisitions		-			6,010		
		-					
Domestic print and Internet yellow pages directories business spin-off					-		
	8,695						
Other		134			51		
		(11)		
Balance at end of year		40,316			40,124		
		25,369					
Reinvested Earnings							
Balance at beginning of year		17,324			15,905		
		12,984					
Adoption of tax accounting standards (See Note 1)		(134)		-
		-					
Adjusted balance at beginning of year		17,190			15,905		
		12,984					
Net income		5,521			6,197		
		7,397					
Dividends declared (\$1.67, \$1.62 and \$1.62 per share)		(4,830)		
	(4,781				(4,479		
Other		3			3		
		3					
Balance at end of year		17,884			17,324		
		15,905					
Accumulated Other Comprehensive Loss							
Balance at beginning of year		(7,530			(1,783		
		(1,053)		
Foreign currency translation adjustments		838					1,196
		(755)		
Unrealized gains on net investment hedges		-					-

Unrealized gains (losses) on marketable securities			(4	)			54		
			(21)					
Unrealized gains on cash flow hedges		1				14			
		10							
Defined benefit pension and postretirement plans			1,948				-		
			-						
Minimum pension liability adjustment			-				526		
			51						
Other		241			(128)			
		(17)						
Other comprehensive income (loss)		3,024				1,662			
		(730)						
Adoption of pension and postretirement benefit accounting standard (See Note 15)							-		
		(7,409)			-			
Balance at end of year		(4,506	)		(7,530)			
		(1,783)						
Treasury Stock									
Balance at beginning of year	(56,147	)	(1,871	)	(11,456	)	(353)	
	(5,213	)	(142)					
Shares purchased	(68,063	)	(2,843	)	(50,066	)	(1,700)	
	(7,859	)	(271)					
Shares distributed									
Employee plans	33,411		1,224		5,355		181		1,594
			59						
Shareowner plans	13		1		20		1		22
			1						
Balance at end of year	(90,786	)	(3,489	)	(56,147	)	(1,871)	
	(11,456	)	(353)					
Deferred Compensation-ESOPs and Other									
Balance at beginning of year		191				265			
		90							
Amortization		(112	)			(74)		
		174							
Other		-				-			
		1							
Balance at end of year		79				191			
		265							
Total Shareowners' Investment		\$ 50,581				\$ 48,535			

			\$ 39,680				
Comprehensive Income							
Net income			\$ 5,521			\$ 6,197	
			\$ 7,397				
Other comprehensive income (loss) per above				3,024			1,662
				(730)		
Total Comprehensive Income			\$ 8,545			\$ 7,859	
			\$ 6,667				

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements Verizon Communications Inc. and Subsidiaries

Note 1

Description of Business and Summary of Significant Accounting Policies

Description of Business

Verizon Communications Inc. (Verizon or the Company) is one of the world's leading providers of communications services. We have two reportable segments, Wireline and Domestic Wireless, which we operate and manage as strategic business units and organize by products and services. For further information concerning our business segments, see Note 17. Our Wireline segment provides communications services, including voice, broadband video and data, network access, nationwide long-distance and other communications products and services, and also owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks. We continue to deploy advanced broadband network technology, with our fiber-to-the-premises network (FiOS) creating a platform with sufficient bandwidth and capabilities to meet customers' current and future needs. FiOS allows us to offer our customers a wide array of broadband services, including advanced data and video offerings. Our IP network includes over 485,000 route miles of fiber optic cable and provides access to over 150 countries across six continents, enabling us to provide next-generation IP network products and Information Technology (IT) services to medium and large businesses and government customers worldwide.

Verizon's Domestic Wireless segment, operating as Verizon Wireless, provides wireless voice and data products and other value-added services and equipment across the United States using one of the most extensive and reliable wireless networks. Verizon Wireless continues to expand our wireless data, messaging and multi-media offerings at broadband speeds for both consumer and business customers.

Consolidation

The method of accounting applied to investments, whether consolidated, equity or cost, involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the operations of the investee. The consolidated financial statements include our controlled subsidiaries. Investments in businesses which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method. Equity and cost method investments are included in Investments in Unconsolidated Businesses in our consolidated

balance sheets. Certain of our cost method investments are classified as available-for-sale securities and adjusted to fair value pursuant to the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115).

All significant intercompany accounts and transactions have been eliminated.

We have reclassified prior year amounts to conform to the current year presentation.

Discontinued Operations, Assets Held for Sale, and Sales of Businesses and Investments

We classify as discontinued operations for all periods presented any component of our business that we hold for sale or disposal that has operations and cash flows that are clearly distinguishable operationally and for financial reporting purposes from the rest of Verizon. For those components, Verizon has no significant continuing involvement after disposal and their operations and cash flows are eliminated from Verizon's ongoing operations. Sales of significant components of our business not classified as discontinued operations are reported as either Sales of Businesses, Net, Equity in Earnings of Unconsolidated Businesses or Other Income and (Expense), Net in our consolidated statements of income.

Use of Estimates

We prepare our financial statements using U.S. generally accepted accounting principles (GAAP), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Examples of significant estimates include unrealized tax benefits, the allowance for doubtful accounts, the recoverability of plant, property and equipment, the recoverability of intangible assets and other long-lived assets, valuation allowances on tax assets and pension and postretirement benefit assumptions.

Revenue Recognition

Wireline

Our Wireline segment earns revenue based upon usage of our network and facilities and contract fees. In general, fixed monthly fees for voice, video, data and certain other services are billed one month in advance and recognized the following month when earned. Revenue from services that are not fixed in amount and are based on usage are recognized when such services are provided.

We recognize equipment revenue for services, in which we bundle the equipment with maintenance and monitoring services, when the equipment is installed in accordance with contractual specifications and ready for the customer's use. The maintenance and monitoring services are recognized monthly over the term of the contract as we provide the services. Long-term contracts are accounted for using the percentage of completion method. We use the completed contract method if we cannot estimate the costs with a reasonable degree of reliability.

Customer activation fees, along with the related costs up to but not exceeding the activation fees, are deferred and amortized over the customer relationship period.

Domestic Wireless

Our Domestic Wireless segment earns revenue by providing access to and usage of our network, which includes roaming revenue. In general, access revenue is billed one month in advance and recognized when earned. Access revenue, usage revenue and roaming revenue are recognized when service is rendered. Equipment sales revenue associated with the sale of wireless handsets and accessories is recognized when the products are delivered to and

accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Customer activation fees are considered additional consideration when handsets are sold to customers at a discount and are recorded as equipment sales revenue at the time of customer acceptance.

Maintenance and Repairs

We charge the cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, principally to Cost of Services and Sales as these costs are incurred.

Advertising Costs

Advertising costs for advertising products and services as well as other promotional and sponsorship costs are charged to Selling, General & Administrative expense in the periods in which they are incurred.

Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of shares outstanding during the period. Diluted earnings per common share include the dilutive effect of shares issuable under our stock-based compensation plans, an exchangeable equity interest and zero-coupon convertible notes (see Note 13). As of December 31, 2006, the exchangeable equity interest and zero-coupon convertible notes were no longer outstanding.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents, except cash equivalents held as short-term investments. Cash equivalents are stated at cost, which approximates market value.

Short-Term Investments

Our short-term investments consist primarily of cash equivalents held in trust to pay for certain employee benefits. Short-term investments are stated at cost, which approximates market value.

Marketable Securities

Marketable securities are included in the accompanying consolidated balance sheets in Investments in Unconsolidated Businesses or Other Assets. We continually evaluate our investments in marketable securities for impairment due to declines in market value considered to be other than temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other than temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

Inventories

Inventory consists primarily of wireless equipment held for sale, which is carried at the lower of cost (determined principally on either an average cost or first-in, first-out basis) or market. We also include in inventory new and reusable supplies and network equipment of our local telephone operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items.

Plant and Depreciation

We record plant, property and equipment at cost. Our local telephone operations' depreciation expense is

principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in local telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

Plant, property and equipment of other wireline and wireless operations are generally depreciated on a straight-line basis.

The asset lives used by our operations are presented in the following table:

Average Useful Lives (in years)			
Buildings	8 - 45		
Central office equipment	3 - 11		
Other network equipment	3 - 15		
Outside communications plant			
Copper cable	13 - 18		
Fiber cable (including undersea cable)	11 - 25		
Microwave towers	30		
Poles and conduit	30 - 50		
Furniture, vehicles and other	1 - 20		

When we replace, retire or otherwise dispose of depreciable plant used in our local telephone network, we deduct the carrying amount of such plant from the respective accounts and charge it to accumulated depreciation. When the depreciable assets of our other Wireline and Domestic Wireless operations are retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, and any gains or losses on disposition are recognized in income.

We capitalize network software purchased or developed along with related plant assets. We also capitalize interest associated with the acquisition or construction of network-related assets. Capitalized interest is reported as part of the cost of the network-related assets and as a reduction in interest expense.

In connection with our ongoing review of the estimated remaining useful lives of plant, property and equipment and associated depreciation rates, we determined that, effective January 1, 2005, the remaining useful lives of copper cable and certain components of central office equipment at our Wireline segment would be shortened by 1 to 2 years. These changes in asset lives were based on Verizon's plans, and progress to date on those plans, to deploy fiber optic cable to homes, replacing copper cable.

Effective January 1, 2007, the remaining useful lives of certain of the circuit equipment was lengthened from 8 years to 9 years based on subsequent modifications to our fiber optic cable deployment plan. The remaining useful lives of buildings was also increased from 42 years to 45 years. The reduction in depreciation resulting from these adjustments in 2007 was partially offset by increased depreciation resulting from the shortening of the lives of various types of wireless plant, property and equipment. While the timing and extent of current deployment plans are subject to modification, we believe that current estimates of reductions in impacted asset lives is reasonable and subject to ongoing analysis as deployment of fiber optic lines continues.

Computer Software Costs

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year in accordance with Statement of Position (SOP) No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are

incurred. Also, we capitalize interest associated with the development of non-network internal-use software. Capitalized non-network internal-use software costs are amortized using the straight-line method over a period of 2 to 7 years and are included in Other Intangible Assets, Net in our consolidated balance sheets. For a discussion of our impairment policy for capitalized software costs under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), see “Goodwill and Other Intangible Assets” below. Also, see Note 9 for additional detail of internal-use non-network software reflected in our consolidated balance sheets.

Goodwill and Other Intangible Assets

Goodwill

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed annually or more frequently if indications of impairment exist under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. We have determined that in our case, the reporting units are our operating segments since that is the lowest level at which discrete, reliable financial and cash flow information is available. Step one compares the fair value of the reporting unit (calculated using a market approach and a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit’s goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit’s assets and liabilities, including identifiable intangible assets). If the carrying value of goodwill exceeds its implied fair value, the excess is required to be recorded as an impairment.

Intangible Assets Not Subject to Amortization

A significant portion of our intangible assets are Domestic Wireless licenses that provide our wireless operations with the exclusive right to utilize designated radio frequency spectrum to provide cellular communication services. While licenses are issued for only a fixed time, generally ten years, such licenses are subject to renewal by the Federal Communications Commission (FCC). Renewals of licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. As a result, we treat the wireless licenses as an indefinite-lived intangible asset under the provisions of SFAS No. 142 . We reevaluate the useful life determination for wireless licenses each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

We test our Domestic Wireless licenses for impairment annually or more frequently if indications of impairment exist. We use a direct value approach in performing our annual impairment test. The direct value approach determines fair value using estimates of future cash flows associated specifically with the licenses. If the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the licenses, an impairment is recognized.

Intangible Assets Subject to Amortization

Our intangible assets that do not have indefinite lives (primarily customer lists and non-network internal-use software) are amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indications were present, we would test for recoverability by comparing the carrying amount of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount (i.e., the asset is not recoverable), we would perform the next step which is to determine the fair value of the asset and record an impairment, if any. We reevaluate the useful life determinations for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful lives.

For information related to the carrying amount of goodwill, other intangibles and wireless licenses by segment as well as the major components and average useful lives of our other acquired intangible assets, see Note 9.

Income Taxes

Verizon and its domestic subsidiaries file a consolidated federal income tax return.

Deferred income taxes are provided for temporary differences in the bases between financial statement and income tax assets and liabilities. Deferred income taxes are recalculated annually at rates then in effect. We record valuation allowances to reduce our deferred tax assets to the amount that is more likely than not to be realized.

Effective January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. The first step is recognition: we determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability.

As a result of the implementation of FIN 48, we recorded adjustments to liabilities that resulted in a net \$79 million increase in the liability for unrecognized tax benefits with an offsetting reduction to reinvested earnings as of January 1, 2007. The implementation

of FIN 48 also resulted in adjustments to prior acquisitions accounted for under purchase accounting, resulting in a reduction in the liability for tax contingencies in the amount of \$635 million and corresponding reductions to goodwill and wireless licenses of \$100 million and \$535 million, respectively. The implementation impact included a reduction in deferred income taxes of approximately \$3 billion, offset with a similar increase in other liabilities as of January 1, 2007.

FASB Staff Position FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* (FSP 13-2), requires that changes in the projected timing of income tax cash flows generated by a leveraged lease transaction be recognized as a gain or loss in the year in which the change occurs. We adopted FSP 13-2 effective January 1, 2007. The cumulative effect of initially adopting FSP 13-2 was a reduction to reinvested earnings of \$55 million, after-tax.

Stock-Based Compensation

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)) utilizing the modified prospective method. SFAS No. 123(R) requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. Under the modified prospective method, the provisions of SFAS No. 123(R) apply to all awards granted or modified after the date of adoption. The impact to Verizon resulted from the Domestic Wireless segment, for which we recorded a \$42 million cumulative effect of accounting change as of January 1, 2006, net of taxes and after minority interest, to recognize the effect of initially measuring the outstanding liability for Value Appreciation Rights (VARs) granted to Domestic Wireless employees at fair value utilizing a Black-Scholes model.

Foreign Currency Translation

The functional currency for all of our foreign operations is generally the local currency. For these foreign entities, we translate income statement amounts at average exchange rates for the period, and we translate assets and liabilities at end-of-period exchange rates. We record these translation adjustments in Accumulated Other Comprehensive Loss, a separate component of Shareowners' Investment, in our consolidated balance sheets. We report exchange gains and losses on intercompany foreign currency transactions of a long-term nature in Accumulated Other Comprehensive Loss. Other exchange gains and losses are reported in income.

Employee Benefit Plans

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits. Expected return on plan assets is determined by applying the return on assets assumption to the market-related value of assets.

As of July 1, 2006, Verizon management employees no longer earn pension benefits or earn service towards the company retiree medical subsidy (see Note 15).

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). Effective December 31, 2006, SFAS No. 158 requires the recognition of a defined benefit postretirement plan's funded status as either an asset or liability on the balance sheet. SFAS No. 158 also requires the immediate recognition of the unrecognized actuarial gains and losses and prior service costs and credits that arise during the period as a component of other accumulated comprehensive income, net of applicable income taxes. Additionally, the fair value of plan assets must be determined as of the Company's year-end. We adopted SFAS No. 158 effective December 31, 2006, which resulted in a net decrease to shareowners' investment of \$7,409 million. This included a net increase in pension obligations of \$2,007 million, an increase in Other Postretirement Benefits Obligations of \$10,828 million and an increase in Other Employee Benefit Obligations of \$31 million, offset by an increase in deferred taxes of \$5,457 million.

Derivative Instruments

We have entered into derivative transactions to manage our exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. We employ risk management strategies using a variety of derivatives including foreign currency forwards and collars, equity options, interest rate and commodity swap agreements and interest rate locks. We do not hold derivatives for trading purposes.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) and related amendments and interpretations, we measure all derivatives, including derivatives embedded in other financial instruments, at fair value and recognize them as either assets or liabilities on our consolidated balance sheets. Changes in the fair values of derivative instruments not qualifying as hedges or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income (loss) and recognized in earnings when the hedged item is recognized in earnings.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations (Revised)*, (SFAS No. 141(R)), to replace SFAS No. 141, *Business Combinations*. SFAS No. 141(R) requires the use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and broadens the scope to all transactions and

other events in which one entity obtains control over one or more other businesses. This statement is effective for business combinations or transactions entered into for fiscal years beginning on or after December 15, 2008. We are still evaluating the impact of SFAS No. 141(R), however, the adoption of this statement is not expected to have a material impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*, (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the retained interest and gain or loss when a subsidiary is deconsolidated. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. Upon the initial adoption of this statement we will change the classification and presentation of Noncontrolling Interest in our financial statements, which we currently refer to as minority interest. We are still evaluating the impact SFAS No. 160 will have, but we do not expect a material impact on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of SFAS 115* (SFAS No. 159), which permits but does not require us to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. As we will not elect to fair value any of our financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective January 1, 2008 will not have any impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position (FSP) 157-2 which delays the effective date of SFAS No. 157 for one year, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 and FSP 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007. We will elect a partial deferral of SFAS No. 157 under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating goodwill, other intangible assets, wireless licenses and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. The impact of partially adopting SFAS No. 157 effective January 1, 2008 will not be material to our financial statements.

In June 2006, the Emerging Issues Task Force (EITF) reached a consensus on EITF No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement* (EITF No. 06-3). EITF No. 06-3 permits that such taxes may be presented on either a gross basis or a net basis as long as that presentation is used consistently. The adoption of EITF No. 06-3 on January 1, 2007 did not impact our financial statements. We present the taxes within the scope of EITF No. 06-3 on a net basis.

Note 2

Discontinued Operations, Extraordinary Item and Other Dispositions

Discontinued Operations

Telecomunicaciones de Puerto Rico, Inc.

On March 30, 2007, we completed the sale of our 52% interest in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) and received gross proceeds of approximately \$980 million. The sale resulted in a pretax gain of \$120 million (\$70 million after-tax). Verizon contributed \$100 million (\$65 million after-tax) of the proceeds to the Verizon Foundation.

Verizon Dominicana C. por A.

On December 1, 2006, we closed the sale of Verizon Dominicana C. por A (Verizon Dominicana). The transaction resulted in net pretax cash proceeds of \$2,042 million, net of a purchase price adjustment of \$373 million. The U.S. taxes that became payable and were recognized at the time the transaction closed exceeded the \$30 million pretax gain on the sale resulting in an overall after-tax loss of \$541 million.

Verizon Information Services

In October, 2006, we announced our intention to spin-off our domestic print and Internet yellow pages directories publishing operations, which have been organized into a newly formed company known as Idearc Inc. On October 18, 2006, the Verizon Board of Directors declared a dividend consisting of 1 share of the newly formed company for each 20 shares of Verizon owned. In making its determination to effect the spin-off, Verizon's Board of Directors considered, among other things, that the spin-off may allow each company to separately focus on its core business, which may facilitate the potential expansion and growth of Verizon and the newly

formed company, and allow each company to determine its own capital structure. On November 17, 2006, we completed the spin-off of our domestic print and Internet yellow pages directories business. Cash was paid for fractional shares. The distribution of common stock of the newly formed company to our shareowners was considered a tax free transaction for us and for our shareowners, except for the cash payments for fractional shares which were generally taxable.

At the time of the spin-off, the exercise price and number of shares of Verizon common stock underlying options to purchase shares of Verizon common stock, restricted stock units (RSU's) and performance stock units (PSU's) were adjusted pursuant to the terms of the applicable Verizon equity incentive plans, taking into account the change in the value of Verizon common stock as a result of the spin-off.

In connection with the spin-off, Verizon received approximately \$2 billion in cash from the proceeds of loans under a term loan facility of the newly formed company and transferred to the newly formed company debt obligations in the aggregate principal amount of approximately \$7.1 billion thereby reducing Verizon's outstanding debt at that time. We incurred pretax charges of approximately \$117 million (\$101 million after-tax), including debt retirement costs, costs associated with accumulated vested benefits of employees of the newly formed company, investment banking fees and other transaction costs related to the spin-off, which are included in discontinued operations.

In accordance with SFAS No. 144 we have classified TELPRI, Verizon Dominicana and our former domestic print and Internet yellow page directories publishing operations as discontinued operations in the consolidated financial statements for all periods presented through the date of the spin-off or divestiture.

The assets and liabilities of TELPRI are disclosed as current assets held for sale and current liabilities related to assets held for sale in the consolidated balance sheet as of December 31, 2006. Additional details related to those assets and liabilities were as follows:

	(dollars in
millions)	
At December 31,	2006
Current assets	\$
303	
Plant, property and equipment, net	1,436

received an aggregate amount of approximately \$572 million, which included \$476 million from the tender offers as well as \$96 million of dividends declared and paid subsequent to the MOU. Based upon our investment balance in CANTV, we recorded an extraordinary loss of \$131 million, including taxes of \$38 million.

Other Dispositions

Telephone Access Lines Spin-off

On January 16, 2007, we announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) that will result in Verizon establishing a separate entity for its local exchange and related business assets in Maine, New Hampshire and Vermont, spinning off that new entity into a newly formed company, known as Northern New England Spinco Inc. (Spinco), to Verizon's shareowners, and immediately merging it with and into FairPoint. These local exchange and business assets are included in Verizon's continuing operations. It is anticipated that as long as all conditions are satisfied and assuming completion of the related financing transactions, both the spin-off of Spinco to Verizon shareowners and the merger of Spinco with FairPoint will occur on March 31, 2008. Verizon's Board of Directors established a record date of March 7, 2008, and a closing date of March 31, 2008, for the proposed spin-off of shares of Spinco to Verizon shareowners.

During 2007, we recorded pretax charges of \$84 million (\$80 million after-tax) for costs incurred related to certain network and work center re-arrangements, the isolation and extraction of related business information, and other activities to separate the wireline facilities and operations in Maine, New Hampshire and Vermont from Verizon at the closing of the transaction, as well as professional advisory and legal fees in connection with this transaction.

Upon the closing of the transaction, Verizon shareowners will own approximately 60 percent of the new company, and FairPoint shareowners will own approximately 40 percent. Verizon Communications will not receive any shares in FairPoint as a result of the transaction. In connection with the merger, Verizon shareowners will receive one share of FairPoint stock for approximately every 53 shares of Verizon stock held as of the record date. The proposal relating to the merger was approved by the FairPoint shareowners in August 2007. Both the spin-off and merger are expected to qualify as tax-free transactions, except to the extent that cash is paid to Verizon shareowners in lieu of fractional shares.

Based upon the number of shares (as adjusted) and price of FairPoint common stock (NYSE: FRP) on the date of the announcement of the merger, the estimated total value to be received by Verizon and its shareowners in exchange for these operations was approximately \$2,715 million. This consisted of (a) approximately \$1,015 million of FairPoint common stock that was to be received by Verizon shareowners in the merger, and (b) \$1,700 million in value that was to be received by Verizon through a combination of cash distributions to Verizon and debt securities issued to Verizon prior to the spin-off. Verizon currently intends to exchange these newly issued debt securities for certain debt that was previously issued by Verizon, which would have the effect of reducing Verizon's then-outstanding debt. The actual total value to be received by Verizon and its shareowners will be determined in part based on the number of shares (as adjusted) and price of FairPoint common stock on the date of the closing of the merger. This value is now expected to be less than \$2,715 million because (a) FairPoint expects to issue approximately 54 million shares of common stock in the merger and the price of FairPoint common stock has declined since the announcement of the merger (the closing price of FairPoint common stock on the last business day prior to the announcement of the merger was \$18.54 per share) and (b) in connection with the regulatory approval process, Verizon currently expects to make additional contributions of approximately \$320 million to the entity that will merge with FairPoint.

Verizon Hawaii Inc.

During 2005, we sold our wireline and directory businesses in Hawaii, including Verizon Hawaii Inc. which operated approximately 700,000 switched access lines, as well as the services and assets of Verizon Long Distance, Verizon Online, Verizon Information Services and Verizon Select Services Inc. in Hawaii, to an affiliate of The Carlyle Group for \$1,326 million in cash proceeds. In connection with this sale, we recorded a net pretax gain of

\$530 million (\$336 million after-tax).

Note 3

Other Items

Other Tax Matters

During 2005, we recorded tax benefits of \$336 million in connection with the utilization of prior year loss carry forwards. As a result of the capital gain realized in 2005 in connection with the sale of our Hawaii businesses, we recorded a tax benefit of \$242 million related to the capital losses incurred in previous years.

Also during 2005, we recorded a net tax provision of \$206 million related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004, for two of our foreign investments.

Facility and Employee-Related Items

During the fourth quarter of 2007, we recorded a charge of \$772 million (\$477 million after-tax) primarily in connection with workforce reductions of 9,000 employees and related charges, 4,000 of whom were terminated in the fourth quarter of 2007 with the remaining reductions expected to occur throughout 2008 (see Note 15). In addition, we adjusted our actuarial assumptions for severance to align with future expectations.

During 2006, we recorded net pretax severance, pension and benefits charges of \$425 million (\$258 million after-tax). These charges included net pretax pension settlement losses of \$56 million (\$26 million after-tax) related to employees that received lump-sum distributions primarily resulting from our separation plans. These charges were recorded in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination* (SFAS No. 88), which requires that settlement losses be recorded once prescribed payment thresholds have been reached. Also included are pretax charges of \$369 million (\$228 million after-tax) for employee severance and severance-related costs in connection with the involuntary separation of approximately 4,100 employees. In addition, during 2005 we recorded a charge of \$59 million (\$36 million after-tax) associated with employee severance costs and severance-related activities in connection with a voluntary separation program for surplus union-represented employees.

During 2006, we recorded pretax charges of \$184 million (\$118 million after-tax) in connection with the continued relocation of employees and business operations to Verizon Center located in Basking Ridge, New Jersey. During 2005, we recorded a net pretax gain of \$18 million (\$8 million after-tax) in connection with this relocation, including a pretax gain of \$120 million (\$72 million after-tax) related to the sale of a New York City office building, partially offset by a pretax charge of \$102 million (\$64 million after-tax) primarily associated with relocation, employee severance and related activities.

During 2005, we reported a net pretax charge of \$98 million (\$59 million after-tax) related to the restructuring of the Verizon management retirement benefit plans. This pretax charge was recorded in accordance with SFAS No. 88, and SFAS No. 106, *Employers' Accounting for the Postretirement Benefits Other Than Pensions* (SFAS No. 106) and included the unamortized cost of prior pension enhancements of \$430 million, offset partially by a pretax curtailment gain of \$332 million related to retiree medical benefits. In connection with this restructuring, management employees: no longer earn pension benefits or earn service towards the company retiree medical subsidy after June, 2006; received an 18-month enhancement of the value of their pension and retiree medical subsidy; and receive a higher savings plan matching contribution.

Other Items

In 2006, we recorded pretax charges of \$26 million (\$16 million after-tax) resulting from the extinguishment of

debt assumed in connection with the completion of the MCI merger (see Note 8).

During 2005, we recorded pretax charges of \$139 million (\$133 million after-tax) including a pretax impairment charge of \$125 million pertaining to aircraft leased to airlines involved in bankruptcy proceedings and a pretax charge of \$14 million (\$8 million after-tax) in connection with the early extinguishment of debt.

Note 4

Marketable Securities and Other Investments

We have investments in marketable securities which are considered “available-for-sale” under SFAS No. 115. These investments have been included in our consolidated balance sheets in Short-Term Investments, Investments in Unconsolidated Businesses and Other Assets.

Under SFAS No. 115, available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses (net of income taxes) that are considered temporary in nature recorded in Accumulated Other Comprehensive Loss. The fair values of our investments in marketable securities are determined based on market quotations. We continually evaluate our investments in marketable securities for impairment due to declines in market value considered to be other than temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other than temporary, a charge to earnings is recorded in Other Income and (Expense), Net in the consolidated statements of income for all or a portion of the unrealized loss, and a new cost basis in the investment is established. As of December 31, 2007, no impairments were determined to exist.

The following table shows certain summarized information related to our investments in marketable securities:

	Cost	Gross Unrealized				
		Losses	Fair Value			
(dollars in millions)						
At December 31, 2007						
Short-term investments	\$ 497	\$ 21				
	\$ -	\$				
518						
Investments in unconsolidated businesses (Note 6)	286	42	-			
		328				
Other assets	661	31	-			
		692				
	\$ 1,444	\$ 94				
	\$ -	\$				
1,538						
At December 31, 2006						
Short-term investments	\$ 616	\$ 28				
	\$ -	\$				

644

Investments in unconsolidated businesses (Note 6)	259	38					
	(2)	295					
Other assets	594	31	-				
		625					
	\$ 1,469	\$ 97					
	\$ (2)	\$					

1,564

Our short-term investments are primarily bonds and mutual funds.

Certain other investments in securities that we hold are not adjusted to market values because those values are not readily determinable and/or the securities are not marketable. We do, however, adjust the carrying values of these securities in situations where we believe declines in value below cost were other than temporary. The carrying values for investments not adjusted to market value were \$15 million at December 31, 2007 and \$12 million at December 31, 2006.

Note 5

Plant, Property and Equipment

The following table displays the details of plant, property and equipment, which is stated at cost:

		(dollars in millions)	
At December 31,	2007		
	2006		
Land	\$ 839		
	\$ 959		
Buildings and equipment	19,734		
	19,207		
Network equipment	173,654		
	163,580		
Furniture, office and data processing equipment	11,912		
	12,789		
Work in progress	1,988		
	2,315		
Leasehold improvements	3,612		
	3,061		
Other	2,255		

	2,198		
	213,994		
	204,109		
Less accumulated depreciation	128,700		
	121,753		
Total	\$ 85,294		
	\$ 82,356		

Note 6

Investments in Unconsolidated Businesses

Our investments in unconsolidated businesses are comprised of the following:

				(dollars in millions)			
				2007		2006	
At December 31,	Ownership	Investment		Ownership	Investment		
Equity Investees							
Vodafone Omnitel	23.1	%	\$				
2,313	23.1	%	\$				
3,624							
CANTV	-		-				
	28.5			230			
Other	Various			744			
	Various			744			
Total equity investees				3,057			
				4,598			
Cost Investees							
	Various			315			
	Various			270			
Total investments in unconsolidated businesses				\$ 3,372			
				\$ 4,868			

Dividends and repatriations of foreign earnings received from these investees amounted to \$2,571 million in 2007, \$42 million in 2006 and \$2,335 million in 2005.

Equity Investees

Vodafone Omnitel

Vodafone Omnitel is the second largest wireless communications company in Italy. At December 31, 2007 and 2006, our investment in Vodafone Omnitel included goodwill of \$1,154 million and \$1,044 million, respectively.

In December 2007, Verizon received a net distribution from Vodafone Omnitel of approximately \$2.1 billion and we anticipate that we may receive an additional distribution from Vodafone Omnitel within the next twelve months. As a result, we recorded \$610 million of foreign and domestic taxes and expenses specifically relating to our share of Vodafone Omnitel's distributable earnings. During 2005, we repatriated approximately \$2.2 billion of Vodafone Omnitel's earnings through the repurchase of issued and outstanding shares of its equity. Vodafone Omnitel's owners, Verizon and Vodafone Group Plc (Vodafone), participated on a pro rata basis; consequently, Verizon's ownership interest after the share repurchase remained at 23.1%.

CANTV

Verizon sold its interest in CANTV in 2007 (see Note 2).

Other Equity Investees

Verizon has limited partnership investments in entities that invest in affordable housing projects, for which Verizon provides funding as a limited partner and receives tax deductions and tax credits based on its partnership interests. At December 31, 2007 and 2006, Verizon had equity investments in these partnerships of \$637 million and \$659 million, respectively. Verizon currently adjusts the carrying value of these investments for any losses incurred by the limited partnerships through earnings.

The remaining investments include wireless partnerships in the U.S. and other smaller domestic and international investments.

Cost Investees

Some of our cost investments are carried at their current market value. Other cost investments are carried at their original cost, except in cases where we have determined that a decline in the estimated market value of an investment is other than temporary as described in Note 4. Our cost investments include a variety of domestic and international investments primarily involved in providing communication services.

Note 7
Minority Interest

Minority interests in equity of subsidiaries were as follows:

--	--	--	--	--

--	--	--	--	--

(dolla

rs in millions)

At December 31,				
-----------------	--	--	--	--

2007

2006

Minority interests in consolidated subsidiaries:				
Wireless joint venture				
		\$		
31,782				
		\$		
27,854				
Cellular partnerships and other				
		506		
		483		
		\$		
32,288				
		\$		
28,337				

Wireless Joint Venture

The wireless joint venture was formed in April 2000 in connection with the combination of the U.S. wireless operations and interests of Verizon and Vodafone. The wireless joint venture operates as Verizon Wireless. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%.

Under the terms of an investment agreement, Vodafone had the right to require Verizon Wireless to purchase up to an aggregate of \$20 billion worth of Vodafone's interest in Verizon Wireless at designated times (put windows) at its then fair market value, not to exceed \$10 billion in any one put window. The last of these put windows opened on June 10 and closed on August 9 in 2007. Vodafone did not exercise its right during this period and no longer has any right to require the purchase of any of its interest in Verizon Wireless.

Cellular Partnerships and Other

In August 2002, Verizon Wireless and Price Communications Corp. (Price) combined Price's wireless business with a portion of Verizon Wireless. The resulting limited partnership, Verizon Wireless of the East LP (VZ East), is controlled and managed by Verizon Wireless. In exchange for its contributed assets, Price received a limited partnership interest in VZ East which was exchangeable into the common stock of Verizon Wireless if an initial public offering of that stock occurred, or into the common stock of Verizon on the fourth anniversary of the asset contribution date. On August 15, 2006, Verizon delivered 29.5 million shares of newly-issued Verizon common stock to Price valued at \$1,007 million in exchange for Price's limited partnership interest in VZ East. As a result of acquiring Price's limited partnership interest, Verizon recorded goodwill of \$345 million in the third quarter of 2006 attributable to its Domestic Wireless segment.

Note 8

Merger and Acquisitions

Completion of Merger with MCI

On January 6, 2006, after receiving the required state, federal and international regulatory approvals, Verizon completed the acquisition of 100% of the outstanding common stock of MCI, Inc. (MCI) for a combination of Verizon common shares and cash. MCI was a global communications company that provided Internet, data and voice communication services to businesses and government entities throughout the world and consumers in the United States.

The merger was accounted for using the purchase method in accordance with SFAS No. 141, and the aggregate transaction value was \$6,890 million, consisting of \$5,829 million of cash and common stock issued at closing, \$973 million of consideration for the shares acquired from entities controlled by Carlos Slim Helú, net of the portion of the special dividend paid by MCI that was treated as a return of our investment, and closing and other direct merger-related costs. The number of shares issued was based on the "Average Parent Stock Price," as defined in the merger agreement. The consolidated financial statements include the results of MCI's operations from the date of the close of the merger.

Allocation of the cost of the merger

In accordance with SFAS No. 141, the cost of the merger was allocated to the assets acquired and liabilities assumed based on their fair values as of the close of the merger, with the amounts exceeding the fair value being recorded as goodwill. The process to identify and record the fair value of assets acquired and liabilities assumed included an analysis of the acquired fixed assets, including real and personal property; various contracts, including leases, contractual commitments, and other business contracts; customer relationships; investments; and contingencies.

The fair values of the assets acquired and liabilities assumed were determined using one or more of three valuation approaches: market, income and cost. The selection of a particular method for a given asset depended on the reliability of available data and the nature of the asset, among other considerations. The market approach, which indicates value for a subject asset based on available market pricing for comparable assets, was utilized for certain acquired real property and investments. The income approach, which indicates value for a subject asset based on the present value of cash flow projected to be generated by the asset, was used for certain intangible assets such as customer relationships, as well as for favorable/unfavorable contracts. Projected cash flow is discounted at a required rate of return that reflects the relative risk of achieving the cash flow and the time value of money. Projected cash flows for each asset considered multiple factors, including current revenue from existing customers; distinct analysis of expected price, volume, and attrition trends; reasonable contract renewal assumptions from the perspective of a marketplace participant; expected profit margins giving consideration to marketplace synergies; and required returns to contributory assets. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used for the majority of personal property. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation or obsolescence, with specific consideration given to economic obsolescence if indicated.

The following table summarizes the allocation of the cost of the merger to the assets acquired, including cash of \$2,361 million, and liabilities assumed as of the close of the merger.

(dollars in millions)

Assets acquired		
-----------------	--	--

Current assets		
----------------	--	--

\$ 6,001

Property, plant & equipment		
-----------------------------	--	--

6,453

Intangible assets subject to amortization		
---	--	--

Customer relationships		
------------------------	--	--

1,162

Rights of way and other		
-------------------------	--	--

176

Deferred income taxes and other assets		
--	--	--

1,995

Goodwill		
----------	--	--

5,085

Total assets acquired		
-----------------------	--	--

\$ 20,872

Liabilities assumed		
---------------------	--	--

Current liabilities		
---------------------	--	--

\$ 6,093
 Long-term debt

6,169
 Deferred income taxes and other non-current liabilities

1,720
 Total liabilities assumed

13,982
 Purchase price

\$ 6,890

The goodwill resulting from the merger with MCI is included in our Wireline segment, which includes the operations of the former MCI. The customer relationships are being amortized on a straight-line basis over 3-8 years based on whether the relationship is with a consumer or a business customer since this correlates to the pattern in which the economic benefits are expected to be realized.

We recorded certain severance and severance-related costs and contract termination costs in connection with the merger, pursuant to EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. The following table summarizes the activity related to these obligations during 2007:

		At December 31, 2006			
(dollars in millions)					
		Payments			
		At December 31, 2007			
Severance costs and contract termination costs		\$ 376	\$		
(340	)		\$ 36		

The remaining contract termination costs at December 31, 2007 are expected to be paid over the remaining contract periods through 2008.

In 2007 and 2006, we recorded pretax charges of \$178 million (\$112 million after-tax) and \$232 million (\$146 million after-tax), respectively, primarily associated with the MCI acquisition that were comprised of advertising and other costs related to re-branding initiatives, facility exit costs and systems integration activities.

Pro Forma Information

The following unaudited pro forma consolidated results of operations assume that the MCI merger was completed as of January 1 for the periods shown below:

				(dollars in millions, except per share amounts)
Years Ended December 31,		2006		
		2005		
Operating revenues		\$ 88,409		
		\$ 85,781		
Income before discontinued operations and cumulative effect of accounting change		5,480		
		6,724		
Net income		6,197		
		8,176		
Basic earnings per common share:				
Income before discontinued operations and cumulative effect of accounting change		1.88		
		2.30		
Net income		2.13		
		2.79		
Diluted earnings per common share:				
Income before discontinued operations and cumulative effect of accounting change		1.88		
		2.28		
Net income		2.12		
		2.76		

The unaudited pro forma information presents the combined operating results of Verizon and the former MCI, with the results prior to the acquisition date adjusted to include the pro forma impact of: the elimination of transactions between Verizon and the former MCI; the adjustment of amortization of intangible assets and depreciation of fixed assets based on the purchase price allocation; the elimination of merger expenses incurred by the former MCI; the elimination of the loss on the early redemption of MCI's debt; the adjustment of interest expense reflecting the redemption of all of MCI's debt and the replacement of that debt with \$4 billion of new debt issued in February 2006 at Verizon's weighted average borrowing rate; and to reflect the impact of income taxes on the pro forma adjustments utilizing Verizon's statutory tax rate of 40%. The unaudited pro forma results for 2005 include \$82 million for discontinued operations that were sold by MCI during the first quarter of 2005. The unaudited pro forma results for 2005 include approximately \$300 million of net tax benefits resulting from tax reserve adjustments recognized by the former MCI primarily during the third and fourth quarters of 2005, including audit settlements and other activity.

The unaudited pro forma consolidated basic and diluted earnings per share for 2006 and 2005 are based on the consolidated basic and diluted weighted average shares of Verizon and the former MCI. The historical basic and diluted weighted average shares of the former MCI were converted for the actual number of shares issued upon the closing of the merger.

The unaudited pro forma results are presented for illustrative purposes only and do not reflect the realization of potential cost savings, or any related integration costs. Certain cost savings may result from the merger; however,

there can be no assurance that these cost savings will be achieved. Cost savings, if achieved, could result from, among other things, the reduction of overhead expenses, including employee levels and the elimination of duplicate facilities and capital expenditures. These pro forma results do not purport to be indicative of the results that would have actually been obtained if the merger occurred as of the beginning of each of the periods presented, nor does the pro forma data intend to be a projection of results that may be obtained in the future.

Rural Cellular Corporation

In late July 2007, Verizon Wireless announced that it had entered into an agreement to acquire Rural Cellular Corporation (Rural Cellular), for \$45 per share in cash (or approximately \$757 million). As a result of the acquisition, Verizon Wireless will assume Rural Cellular's outstanding debt. The total value of the transaction is approximately \$2.7 billion. Rural Cellular has more than 700,000 customers in markets adjacent to Verizon Wireless's existing customer service areas. Rural Cellular's networks are located in the states of Maine, Vermont, New Hampshire, New York, Massachusetts, Alabama, Mississippi, Minnesota, North Dakota, South Dakota, Wisconsin, Kansas, Idaho, Washington, and Oregon. Rural Cellular's shareholders approved the transaction on October 4, 2007. The acquisition, which is subject to regulatory approvals, is expected to close in the first half of 2008.

In a related transaction, on December 3, 2007, Verizon Wireless signed a definitive exchange agreement with AT&T. Under the terms of the agreement, Verizon Wireless will receive cellular operating markets in Madison and Mason, KY, and 10MHz PCS licenses in Las Vegas, NV; Buffalo, NY; Sunbury-Shamokin and Erie, PA; and Youngstown, OH. Verizon Wireless will also receive minority interests held by AT&T in three entities in which Verizon Wireless also holds an interest plus a cash payment. In exchange, Verizon Wireless will transfer to AT&T six cellular operating markets in Burlington, Franklin and the northern portion of Addison, VT; Franklin, NY; and Okanogan and Ferry, WA; and a cellular license for the Kentucky-6 market. The operating markets Verizon Wireless is exchanging are among those it is to acquire from Rural Cellular. The exchange with AT&T is subject to regulatory approvals and is expected to close in the first half of 2008.

Other Acquisitions

In July 2007, Verizon acquired a security-services firm for \$435 million, resulting in goodwill of \$343 million and other intangible assets of \$81 million. This acquisition was made to enhance our managed information security services to large business and government customers worldwide. This acquisition was integrated into the Wireline segment.

On November 29, 2006, we were granted thirteen 20MHz licenses we won in an FCC auction that concluded on September 18, 2006. We paid a total of \$2,809 million for the licenses, which cover a population of nearly 200 million.

Note 9				
Goodwill and Other Intangible Assets				
Goodwill				
Changes in the carrying amount of goodwill are as follows:				
				(dollars in millions)

	Wireline			
	Domestic Wireless	Total		
Balance at December 31, 2005	\$ 315	\$		
-	\$ 315			
Acquisitions	5,085	345		
	5,430			
Reclassifications and adjustments	(90)	-		
	(90)			
Balance at December 31, 2006	\$ 5,310	\$		
345	\$ 5,655			
Acquisitions	343	-		
	343			
Reclassifications and adjustments	(753)	-		
	(753)			
Balance at December 31, 2007	\$ 4,900	\$		
345	\$ 5,245			

Reclassifications and adjustments to goodwill include the impact of adopting FIN 48 (see Note 1) of \$100 million as of January 1, 2007, as well as to reflect revised estimated tax bases of acquired assets and liabilities during 2007 and 2006.

Other Intangible Assets

The following table displays the details of other intangible assets:

	(dollars in millions)			
	At December 31, 2007		At December 31,	
2006				
	Gross Amount	Accumulated Amortization		
	Gross Amount	Accumulated Amortization		
Finite-lived intangible assets:				
Customer lists (3 to 10 years)	\$ 1,307	\$ 459	\$ 1,278	
	\$ 270			
Non-network internal-use software (2 to 7 years)	8,116	4,147	7,777	
	3,826			
Other (1 to 25 years)	215	44	204	
	23			
Total	\$ 9,638	\$ 4,650	\$ 9,259	
	\$ 4,119			
Indefinite-lived intangible assets:				

Wireless licenses	\$ 50,796			\$ 50,959		
-------------------	-----------	--	--	-----------	--	--

Reclassifications and adjustments to wireless licenses include the impact of adopting FIN 48 (see Note 1) of \$535 million as of January 1, 2007, partially offset by acquisitions during 2007.

Amortization expense was \$1,341 million, \$1,423 million, and \$1,444 million for the years ended December 31, 2007, 2006 and 2005, respectively and is estimated to be \$1,324 million in 2008, \$1,116 million in 2009, \$884 million in 2010, \$696 million in 2011 and \$472 million in 2012. Customer lists and relationships of \$3,313 million at Domestic Wireless became fully amortized during 2006.

Note 10

Leasing Arrangements

As Lessor

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of the portfolio along with telecommunications equipment, real estate property, and other equipment. These leases have remaining terms up to 48 years as of December 31, 2007. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which holds a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets. See Note 3 for information on lease impairment charges.

Finance lease receivables, which are included in Prepaid Expenses and Other and Other Assets in our consolidated balance sheets are comprised of the following:

(dollars in millions)						
At December 31,	2007			2006		
	Leveraged Leases	Direct Finance Leases		Total		
	Leveraged Leases	Direct Finance Leases		Total		
Minimum lease payments receivable	\$ 2,959	\$ 131	\$ 3,090	\$ 3,311	\$	
128		\$ 3,439				
Estimated residual value	1,434	16	1,450	1,637	18	
		1,655				
Unamortized initial direct costs	-	1	1	-	-	
		-				
Unearned income	(1,483)	(25)	(1,508)	(1,895)	(22)	
	)	(1,917))))	
	\$ 2,910	\$ 123	3,033	\$ 3,053	\$	
124		3,177				
Allowance for doubtful accounts			(168)			

(dollars in millions)				
Years	Capital Leases			
Operating Leases				
2008	\$ 75			
	\$ 1,489			
2009	63			
	1,276			
2010	59			
	1,016			
2011	55			
	756			
2012	38			
	497			
Thereafter	132			
	1,967			
Total minimum rental commitments	422			
	\$ 7,001			
Less interest and executory costs	(110)		
Present value of minimum lease payments	312			
Less current installments	(46)		
Long-term obligation at December 31, 2007	\$ 266			

As of December 31, 2007, the total minimum sublease rentals to be received in the future under noncancelable operating and capital subleases were \$50 million and \$22 million, respectively.

Note 11
Debt

Debt Maturing Within One Year

Debt maturing within one year is as follows:

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	(dollars in
	millions)
At December 31,	2007
	2006

Long-term debt maturing within one year	\$		
2,564	\$		
4,139			
Commercial paper	390		
		3,576	
Total debt maturing within one year	\$		
2,954	\$		
7,715			

The weighted average interest rate for our commercial paper at December 31, 2007 and December 31, 2006 was 4.6% and 5.3%, respectively.

Capital expenditures (primarily acquisition and construction of network assets) are partially financed, pending long-term financing, through bank loans and the issuance of commercial paper payable within 12 months.

At December 31, 2007, we had approximately \$6.2 billion of unused bank lines of credit (including a \$6 billion three-year committed facility that expires in September 2009 and various other facilities totaling approximately \$400 million). Certain of these lines of credit contain requirements for the payment of commitment fees.

Long - Term Debt

Outstanding long-term debt obligations are as follows:

				(dollars in millions)	
At December 31,	Interest Rates %	Maturities	2007		
	2006				
Notes payable	4.00 - 8.23	2008 - 2037	\$ 14,923		
	\$ 14,805				
Telephone subsidiaries - debentures	4.63 - 7.00	2008 - 2033	10,580		
	11,703				
	7.15 - 7.63	2012 - 2032	850		
	1,275				
	7.85 - 8.75	2010 - 2031	1,679		
	1,679				
Other subsidiaries - debentures and other	6.46 - 8.75	2008 - 2028	2,450		
	2,977				

Employee stock ownership plan loans - NYNEX debentures		9.55		2010	
	70	92			
Capital lease obligations (average rate 6.8% and 8.0%)				312	
	360				
Unamortized discount, net of premium				(97)
	(106)			
Total long-term debt, including current maturities				30,767	
	32,785				
Less: debt maturing within one year				(2,564)
	(4,139)			
Total long-term debt				\$ 28,203	
	\$ 28,646				

Notes Payable

In April 2007, Verizon issued \$750 million of 5.50% notes due 2017, \$750 million of 6.25% notes due 2037, and \$500 million of floating rate notes due 2009 resulting in cash proceeds of \$1,977 million, net of discounts and issuance costs.

In March 2007, Verizon issued \$1,000 million of 13-month floating rate exchangeable notes with an original maturity of 2008. These notes are exchangeable periodically at the option of the note holder into similar notes until 2017.

In February 2007, Verizon utilized a \$425 million floating rate vendor financing facility due 2013.

In February 2008, we issued \$4,000 million of fixed rate notes, with varying maturities, that resulted in cash proceeds of \$3,953 million, net of discounts and issuance costs.

Previously, Verizon issued \$1,750 million in principal amount at maturity of floating rate notes due August 15, 2007. On January 8, 2007, we redeemed the remaining \$1,580 million principal of the outstanding floating rate notes at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest through the date of redemption. The total payment on the date of redemption was approximately \$1,593 million. Approximately \$1,600 million of other borrowings were redeemed during 2007.

Telephone and Other Subsidiary Debt

During the fourth quarter of 2007, Verizon redeemed previously guaranteed \$480 million 7.0% debentures, Series B, issued by Verizon New England Inc. due 2042 at par plus accrued and unpaid interest to the redemption dates. During the third quarter of 2007, \$150 million Verizon Pennsylvania Inc. 7.375% notes matured and were repaid. During the second quarter of 2007, \$125 million Verizon New England Inc. 7.65% notes and the \$225 million Verizon South Inc. 6.125% notes matured and were repaid. During the first quarter of 2007, \$150 million GTE Southwest Inc. 6.23% notes and the \$275 million Verizon California Inc. 7.65% notes matured and were repaid. In addition, we redeemed \$500 million of GTE Corporation 7.90% debentures due February 1, 2027 and \$300 million Verizon South Inc. 7.0% debentures, Series F, due 2041 at par plus accrued and unpaid interest to the redemption

dates. During the first quarter we recorded pretax charges of \$28 million (\$18 million after-tax) in connection with the early extinguishments of debt.

During the second quarter of 2006, we redeemed/prepaid several debt issuances, including: Verizon North Inc. \$200 million 7.625% Series C debentures due May 15, 2026; Verizon Northwest Inc. \$175 million 7.875% Series B debentures due June 1, 2026; Verizon South Inc. \$250 million 7.5% Series D debentures due March 15, 2026; Verizon California Inc. \$25 million 9.41% Series W first mortgage bonds due 2014; Verizon California Inc. \$30 million 9.44% Series X first mortgage bonds due 2015; Verizon Northwest Inc. \$3 million 9.67% Series HH first mortgage bonds due 2010 and Contel of the South Inc. \$14 million 8.159% Series GG first mortgage bonds due 2018. The gain/(loss) from these retirements was immaterial.

During the third quarter of 2005, we redeemed Verizon New England Inc. \$250 million 6.875% debentures due October 1, 2023 resulting in a pretax charge of \$10 million (\$6 million after-tax) in connection with the early extinguishment of the debt.

Redemption of Debt Assumed in Merger

On January 17, 2006, Verizon announced offers to purchase two series of MCI senior notes, MCI \$1,983 million aggregate principal amount of 6.688% Senior Notes Due 2009 and MCI \$1,699 million aggregate principal amount of 7.735% Senior Notes Due 2014, at 101% of their par value. Due to the change in control of MCI that occurred in connection with the merger with Verizon on January 6, 2006, Verizon was required to make this offer to noteholders within 30 days of the closing of the merger. Noteholders tendered \$165 million of the 6.688% Senior Notes. Separately, Verizon notified noteholders that MCI was exercising its right to redeem both series of Senior Notes prior to maturity under the optional redemption procedures provided in the indentures. The 6.688% Notes were redeemed on March 1, 2006, and the 7.735% Notes were redeemed on February 16, 2006.

In addition, on January 20, 2006, Verizon announced an offer to repurchase MCI \$1,983 million aggregate principal amount of 5.908% Senior Notes Due 2007 at 101% of their par value. On February 21, 2006, \$1,804 million of these notes were redeemed by Verizon. Verizon satisfied and discharged the indenture governing this series of notes shortly after the close of the offer for those noteholders who did not accept this offer.

We recorded pretax charges of \$26 million (\$16 million after-tax) during the first quarter of 2006 resulting from the extinguishment of the debt assumed in connection with the completion of this merger.

Zero-Coupon Convertible Notes

The previously issued \$5.4 billion zero-coupon convertible notes due 2021, which resulted in gross proceeds of approximately \$3 billion, were redeemable at the option of the holders on May 15th in each of the years 2004, 2006, 2011 and 2016. On May 15, 2004, \$3,292 million of principal amount of the notes (\$1,984 million after unamortized discount) were redeemed. On May 15, 2006, we redeemed the remaining \$1,375 million accreted principal of the remaining outstanding zero-coupon convertible principal. The total payment on the date of redemption was \$1,377 million.

Guarantees

Verizon Global Funding had guaranteed the debt obligations of GTE Corporation (but not the debt of its subsidiary or affiliate companies) that were issued and outstanding prior to July 1, 2003. Verizon assumed this guarantee in connection with the 2006 merger of Verizon Global Funding into Verizon. As of December 31, 2007, \$2,450 million principal amount of these obligations remained outstanding.

Verizon and NYNEX Corporation are the joint and several co-obligors of the 20-Year 9.55% Debentures due 2010 previously issued by NYNEX on March 26, 1990. As of December 31, 2007, \$70 million principal amount of this obligation remained outstanding. NYNEX and GTE no longer issue public debt or file SEC reports.

Debt Covenants

We and our consolidated subsidiaries are in compliance with all of our debt covenants.

Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2007 are as follows:

Years		
		(dollars in million)
2008		\$ 2,564
2009		966
2010		908
2011		671
2012		291
Thereafter		5,367

Note 12

Financial Instruments

Derivatives

The ongoing effect of SFAS No. 133 and related amendments and interpretations on our consolidated financial statements will be determined each period by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the end of each period.

Interest Rate Risk Management

We have entered into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt, where we principally receive fixed rates and pay variable rates based on LIBOR. These swaps hedge against changes in

the fair value of our debt portfolio. We record the interest rate swaps at fair value in our balance sheet as assets and liabilities and adjust debt for the change in its fair value due to changes in interest rates.

We also enter into interest rate derivatives to limit our exposure to interest rate changes. In accordance with the provisions of SFAS No. 133, changes in fair value of these cash flow hedges due to interest rate fluctuations are recognized in Accumulated Other Comprehensive Loss. Amounts recorded to Other Comprehensive Income related to these interest rate cash flow hedges for the years ended December 31, 2007, 2006 and 2005 were not material.

Net Investment Hedges

During 2007, we entered into foreign currency forward contracts to hedge a portion of our net investment in Vodafone Omnitel. Changes in fair value of these contracts due to Euro exchange rate fluctuations are recognized in Accumulated Other Comprehensive Loss and partially offset the impact of foreign currency changes on the value of our net investment. As of December 31, 2007, Accumulated Other Comprehensive Loss includes unrecognized losses of approximately \$57 million (\$37 million after-tax) related to these hedge contracts, which along with the unrealized foreign currency translation balance on the investment hedged, remain in Accumulated Other Comprehensive Loss until the investment is sold.

During 2005, we entered into zero cost Euro collars to hedge a portion of our net investment in Vodafone Omnitel. During 2005, our positions in the zero cost euro collars were settled. As of December 31, 2007 and 2006, Accumulated Other Comprehensive Loss includes unrecognized gains of \$2 million in each year related to these hedge contracts, which along with the unrealized foreign currency translation balance of the investment hedged, remain in Accumulated Other Comprehensive Loss until the investment is sold.

Other Derivatives

On May 17, 2005, we purchased 43.4 million shares of MCI common stock under a stock purchase agreement that contained a provision for the payment of an additional cash amount determined immediately prior to April 9, 2006 based on the market price of Verizon's common stock. Under SFAS No. 133, this additional cash payment was an embedded derivative which we carried at fair value and was subject to changes in the market price of Verizon stock. Since this derivative did not qualify for hedge accounting under SFAS No. 133, changes in its fair value were recorded in the consolidated statements of income in Other Income and (Expense), Net. As of December 31, 2006, this embedded derivative expired with no requirement for an additional cash payment to be made under the stock purchase agreement. During 2006 and 2005, we recorded pretax income of \$4 million and \$57 million, respectively, in connection with this embedded derivative.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, short-term and long-term investments, trade receivables, certain notes receivable, including lease receivables, and derivative contracts. Our policy is to deposit our temporary cash investments with major financial institutions. Counterparties to our derivative contracts are also major financial institutions. The financial institutions have all been accorded high ratings by primary rating agencies. We limit the dollar amount of contracts entered into with any one financial institution and monitor our counterparties' credit ratings. We generally do not give or receive collateral on swap agreements due to our credit rating and those of our counterparties. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial condition.

Fair Values of Financial Instruments

The tables that follow provide additional information about our significant financial instruments:

Financial Instrument	Valuation Method
Cash and cash equivalents and short-term investments	Carrying amounts
Short- and long-term debt (excluding capital leases) maturities or future cash flows discounted at current rates	Market quotes for similar terms and
Cost investments in unconsolidated businesses, derivative assets and liabilities and notes receivable	Future cash flows discounted at current rates, market quotes for similar instruments or other valuation models

--	--	--	--	--	--	--	--	--	--

		(dollars in millions)							
At December 31,			2007						
			2006						
		Carrying Amount		Fair					
Value		Carrying Amount		Fair					
Value									

Short- and long-term debt	\$ 30,845	\$ 32,380							
	\$ 36,000	\$ 37,165							
Cost investments in unconsolidated businesses	315	315							
	270	270							
Short- and long-term derivative assets	61	61							
	31	31							
Short- and long-term derivative liabilities	57	57							
	10	10							

Note 13
Earnings Per Share and Shareowners' Investment

Earnings Per Share

The following table is a reconciliation of the numerators and denominators used in computing earnings per common share:

--	--	--	--	--	--	--	--	--	--

		(dollars and shares in millions, except per share amounts)							
Years Ended December 31,			2007		2006				

2005

Income Before Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change									
	\$	5,510		\$	5,480				
	\$	6,027							
After-tax minority interest expense related to exchangeable equity interest		-			20				
		32							
After-tax interest expense related to zero-coupon convertible notes		-			11				
		28							
Income Before Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change - after assumed conversion of dilutive securities	\$	5,510		\$	5,511				
	\$	6,087							
Weighted-average shares outstanding - basic		2,898			2,912				
		2,766							
Effect of dilutive securities:									
Stock options		4			1				
		5							
Exchangeable equity interest		-			18				
		29							
Zero-coupon convertible notes		-			7				
		17							
Weighted-average shares outstanding - diluted		2,902			2,938				
		2,817							
Earnings Per Common Share from Income Before Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change									
Basic	\$	1.90		\$	1.88				
	\$	2.18							
Diluted	\$	1.90		\$	1.88				
	\$	2.16							

Certain outstanding options to purchase shares were not included in the computation of diluted earnings per common share because they were not dilutive, including approximately 170 million weighted-average shares during 2007, 228 million weighted-average shares during 2006 and 250 million shares during 2005.

The zero-coupon convertible notes were retired on May 15, 2006 and the exchangeable equity interest was converted on August 15, 2006 by issuing 29.5 million Verizon shares (see Notes 7 and 11).

Shareowners' Investment

Our certificate of incorporation provides authority for the issuance of up to 250 million shares of Series Preferred Stock, \$.10 par value, in one or more series, with such designations, preferences, rights, qualifications, limitations and restrictions as the Board of Directors may determine.

We are authorized to issue up to 4.25 billion shares of common stock.

On February 7, 2008, the Board of Directors replaced the prior share buy back program with a new program for the repurchase of up to 100 million shares of Verizon common stock through the earlier of February 28, 2011 or when the total number of shares repurchased under the new buy back program aggregates to 100 million.

During 2007, 2006 and 2005, we repurchased approximately 68 million, 50 million and 7.9 million common shares under programs previously authorized by the Board of Directors.

Note 14

Stock-Based Compensation

Refer to Note 1 for a discussion of the adoption of SFAS No. 123(R), which was effective January 1, 2006.

Verizon Communications Long Term Incentive Plan

The Verizon Communications Long Term Incentive Plan (the Plan), permits the granting of nonqualified stock options, incentive stock options, restricted stock, restricted stock units, performance shares, performance share units and other awards. The maximum number of shares for awards is 207 million.

Restricted Stock Units

The Plan provides for grants of restricted stock units (RSUs) that generally vest at the end of the third year after the grant. The RSUs are classified as liability awards because the RSUs will be paid in cash upon vesting. The RSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the performance of Verizon's stock. Dividend equivalent units are also paid to participants at the time the RSU award is paid.

The following table summarizes Verizon's Restricted Stock Unit activity:

	Units	Average Grant-Date Fair Value
(shares in thousands)	Restricted Stock	Weighted-
Outstanding, January 1, 2005	525	\$ 36.75
Granted	6,410	36.06
Cancelled/Forfeited	(66)	36.07
Outstanding, December 31, 2005	6,869	36.12
Granted	9,116	31.88
Cancelled/Forfeited	(392)	35.01
Outstanding, December 31, 2006	15,593	

	33.67			
Granted	6,779			
	37.59			
Payments	(602)			
	36.75			
Cancelled/Forfeited	(197)			
	34.81			
Outstanding, December 31, 2007	21,573			
	34.80			

Performance Share Units

The Plan also provides for grants of performance share units (PSUs) that generally vest at the end of the third year after the grant. The Human Resources Committee of the Board of Directors determines the number of PSUs a participant earns based on Verizon's Total Shareholder Return (TSR), as defined in the Plan, for a three-year performance cycle relative to the total shareholder returns of: the companies in the industry peer group (60% weight); and the companies in the Standard & Poor's (S&P) 500 index (40% weight). All payments are subject to approval by the Human Resources Committee. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon's stock as well as Verizon's TSR relative to the peer group's TSR and the S&P 500 TSR. Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award.

The following table summarizes Verizon's Performance Share Unit activity:

(shares in thousands)		Performance Share		
Units				
		Weighted-Average Grant-Date		
Fair Value				
Outstanding, January 1, 2005		10,079		
		\$ 37.50		
Granted		9,300		
		36.13		
Cancelled/Forfeited		(288		
)		
		36.91		
Outstanding, December 31, 2005		19,091		
		36.84		
Granted		14,166		
		32.05		
Payments		(3,607		
)		

	38.54			
Cancelled/Forfeited		(1,227		
)			
	37.25			
Outstanding, December 31, 2006		28,423		
	34.22			
Granted		10,371		
	37.59			
Payments		(5,759		
)			
	36.75			
Cancelled/Forfeited		(900		
)			
	36.18			
Outstanding, December 31, 2007		32,135		
	34.80			

As of December 31, 2007, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately \$439 million and is expected to be recognized over a weighted-average period of approximately two years.

Verizon Wireless's Long-Term Incentive Plan

The 2000 Verizon Wireless Long-Term Incentive Plan (the Wireless Plan) provides compensation opportunities to eligible employees and other participating affiliates of Verizon Wireless (the Partnership). The Wireless Plan provides rewards that are tied to the long-term performance of the Partnership. Under the Wireless Plan, Value Appreciation Rights (VARs) were granted to eligible employees. The aggregate number of VARs that may be issued under the Wireless Plan is approximately 343 million.

VARs reflect the change in the value of the Partnership, as defined in the Wireless Plan, similar to stock options. Once VARs become vested, employees can exercise their VARs and receive a payment that is equal to the difference between the VAR price on the date of grant and the VAR price on the date of exercise, less applicable taxes. VARs are fully exercisable three years from the date of grant with a maximum term of 10 years. All VARs are granted at a price equal to the estimated fair value of the Partnership, as defined in the Wireless Plan, at the date of the grant.

With the adoption of SFAS No. 123(R), the Partnership began estimating the fair value of VARs granted using a Black-Scholes option valuation model. The following table summarizes the assumptions used in the model during 2007:

	Ranges		
Risk-free rate	3.2% - 5.1%		
Expected term (in years)	0.9 - 3.4		
Expected volatility	18.1% - 23.4%		

Expected dividend yield	n/a			
-------------------------	-----	--	--	--

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the measurement date. The expected term of the VARs granted was estimated using a combination of the simplified method as prescribed in Staff Accounting Bulletin (SAB) No. 107, "Share Based Payments," (SAB No. 107) historical experience, and management judgment. Expected volatility was based on a blend of the historical and implied volatility of publicly traded peer companies for a period equal to the VARs expected life, ending on the measurement date, and calculated on a monthly basis.

The following table summarizes the Value Appreciation Rights activity:

(shares in thousands)		VARs		
		Weighted-		
Average Grant-Date Fair Value				
Outstanding rights, January 1, 2005		160,661		
		\$ 15.63		
Granted		10		
		14.85		
Exercised		(47,964		
)		
		12.27		
Cancelled/Forfeited		(3,784		
)		
		15.17		
Outstanding rights, December 31, 2005		108,923		
		17.12		
Exercised		(7,448		
)		
		13.00		
Cancelled/Forfeited		(7,008		
)		

23.25

Outstanding rights, December 31, 2006	94,467			
	16.99			
Exercised	(30,848)			
	15.07			
Cancelled/Forfeited	(3,207)			
	24.55			
Outstanding rights, December 31, 2007	60,412			
	17.58			

As of December 31, 2007, all VARs were fully vested.

Stock-Based Compensation Expense

After-tax compensation expense for stock-based compensation related to RSUs, PSUs, and VARs described above included in net income as reported was \$750 million, \$535 million and \$359 million for 2007, 2006 and 2005, respectively.

Stock Options

The Verizon Long Term Incentive Plan provides for grants of stock options to employees at an option price per share of 100% of the fair market value of Verizon Stock on the date of grant. Each grant has a 10 year life, vesting equally over a three year period, starting at the date of the grant. We have not granted new stock options since 2004.

The following table summarizes Verizon's stock option activity:

(shares in thousands)				
Options				
Average Exercise Price				
Outstanding, January 1, 2005	280,88			

9

	\$				
46.18					
Exercised					
	(1,133				
)				
	28.73				
Cancelled/Forfeited					
	(19,996				
)				
	49.62				
Outstanding, December 31, 2005					
	259,76				
0					
	46.01				
Exercised					
	(3,371				
)				
	32.12				
Cancelled/Forfeited					
	(27,025				
)				
	43.72				
Outstanding, December 31, 2006					
	229,36				
4					
	46.48				
Exercised					
	(33,079				
)				
	38.50				
Cancelled/Forfeited					
	(21,422				
)				
	48.26				
Options outstanding, December 31, 2007					
	174,86				

3

47.78

Options exercisable, December 31,

2005

244,42

4

46.64

2006

225,06

7

46.69

2007

174,83

8

47.78

The following table summarizes information about Verizon's stock options outstanding as of December 31, 2007:

					Stock Options
Outstanding					
Range of Exercise Prices		Shares (in thousands)		Weighted-	
Average Remaining Life		Weighted-Average Exercise Price			
\$ 20.00 - 29.99		27		4.7 years	
		\$ 27.68			
30.00 - 39.99		20,671		5.5	
		36.45			
40.00 - 49.99		76,518		2.9	
		44.06			
50.00 - 59.99		77,183		2.1	
		54.43			
60.00 - 69.99		464		1.8	
		60.74			
Total		174,863		2.9	
		47.78			

The total intrinsic value was approximately \$223 million for stock options outstanding as of December 31, 2007. The total intrinsic value for stock options exercised was \$147 million, \$10 million and \$6 million, during 2007, 2006 and 2005, respectively.

The amount of cash received from the exercise of stock options was approximately \$1,274 million, \$101 million and \$34 million for 2007, 2006 and 2005, respectively. The related tax benefits were not material.

The after-tax compensation expense for stock options was not material in 2007, and was \$28 million and \$53 million for 2006 and 2005, respectively.

Note 15

Employee Benefits

We maintain non-contributory defined benefit pension plans for many of our employees. In addition, we maintain postretirement health care and life insurance plans for our retirees and their dependents, which are both contributory and non-contributory and include a limit on the Company's share of cost for certain recent and future retirees. We also sponsor defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis. We use a measurement date of December 31 for our pension and postretirement health care and life insurance plans.

Refer to Note 1 for a discussion of the adoption of SFAS No. 158, which was effective December 31, 2006.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans.

As of June 30, 2006, Verizon management employees no longer earned pension benefits or earned service towards the company retiree medical subsidy. In addition, new management employees hired after December 31, 2005 are not eligible for pension benefits and managers with less than 13.5 years of service as of June 30, 2006 are not eligible for company-subsidized retiree healthcare or retiree life insurance benefits. Beginning July 1, 2006, management employees receive an increased company match on their savings plan contributions.

The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans:

Obligations and Funded Status

	2007		2006		2005	
	(dollars in millions)					
	Pension		Health		Life	
Care and Life						
At December 31,	2007	2006	2007	2006	2007	2006
Change in Benefit Obligations						
Beginning of year	\$ 34,159	\$ 35,540	\$			
27,330		\$ 26,783				
Service cost	442	581	354			

			356		
Interest cost	1,975		1,995	1,592	
			1,499		
Plan amendments	-		-	-	
			50		
Actuarial (gain) loss, net	123		(282)	(409)	
			152		
Benefits paid	(4,204)	)	(2,762))	
	(1,561)	)	(1,564))	
Termination benefits	-		47	-	
			14		
Acquisitions and divestitures, net	-		477	-	
			40		
Settlements	-		(1,437)	-	
			-		
End of year	\$ 32,495		\$ 34,159	\$	
27,306			\$ 27,330		
Change in Plan Assets					
Beginning of year	\$ 41,509		\$ 39,227	\$	
4,303			\$ 4,275		
Actual return on plan assets	4,591		5,536	352	
			493		
Company contributions	737		568	1,048	
			1,099		
Benefits paid	(4,204)	)	(2,762))	
	(1,561)	)	(1,564))	
Settlements	-		(1,437)	-	
			-		
Acquisitions and divestitures, net	26		377	-	
			-		
End of year	\$ 42,659		\$ 41,509	\$	
4,142			\$ 4,303		
Funded Status					
End of year	\$ 10,164		\$ 7,350	\$	
(23,164	)		\$ (23,027)	

dollars in millions)

	Pension		Health Care and Life	
At December 31,	2007	2006	2007	2006
Amounts recognized on the balance sheet				
Noncurrent assets	\$ 13,745	\$ 12,058	\$ -	
Current liabilities	(130)	-	(360)	
Noncurrent liabilities	(3,451)	(4,708)	(22,804)	
Total	\$ 10,164	\$ 7,350	\$ (23,164)	
Amounts recognized in Accumulated Other Comprehensive Loss (Pre-tax)				
Actuarial loss, net	\$ 13	\$ 1,428	\$ 6,040	
Prior service cost	932	975	3,636	
Total	\$ 945	\$ 2,403	\$ 9,676	
	\$ 10,828			

Changes in benefit obligations were caused by factors including changes in actuarial assumptions and settlements.

The accumulated benefit obligation for all defined benefit pension plans was \$31,343 million and \$32,724 million at December 31, 2007 and 2006, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

	2007	2006
Projected benefit obligation	\$ 11,001	\$ 11,495
Accumulated benefit obligation	10,606	11,072

	2005	
Increase (decrease) in minimum liability included in other comprehensive income, net of tax	\$ -	\$
(526)	\$
(51)	

Assumptions

The weighted-average assumptions used in determining benefit obligations follow:

	Pension		Health Care and Life	
At December 31,	2007	2006	2007	2006
Discount rate	6.50 %		6.00 %	
	6.50 %		6.00 %	
Rate of future increases in compensation	4.00	4.00	4.00	4.00

The weighted-average assumptions used in determining net periodic cost follow:

	Pension		Health Care and Life	
Years Ended December 31,	2007	2006	2005	2005
Discount rate	6.00 %	5.75 %	6.00 %	
	5.75 %	5.75 %	6.00 %	
Expected return on plan assets	8.50	8.50	8.50	
	8.25	8.25	7.75	
Rate of compensation increase	4.00	4.00	5.00	
	4.00	4.00	4.00	

In order to project the long-term target investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period, or longer. Those estimates are based on a combination of factors including the following: current market interest rates and valuation levels, consensus earnings expectations, historical long-term risk premiums and value-added. To determine the aggregate return for the pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

The assumed Health Care Cost Trend Rates follow:

--	--	--	--	--	--	--

							Health
--	--	--	--	--	--	--	--------

Care and Life

At December 31,							2007
-----------------	--	--	--	--	--	--	------

2006

2005

Health care cost trend rate assumed for next year							
---	--	--	--	--	--	--	--

10.00

%

10.00

%

10.00

%

Rate to which cost trend rate gradually declines							5.00
--	--	--	--	--	--	--	-------------

5.00

5.00

Year the rate reaches level it is assumed to remain thereafter							2013
--	--	--	--	--	--	--	-------------

2011

2010

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

--	--	--	--	--	--	--

--	--	--	--	--	--	--

(dollars

in millions)

One-Percentage-Point						
----------------------	--	--	--	--	--	--

Increase

Decrease

e

Effect on 2007 service and interest cost	\$		
295	\$		
(234))		
Effect on postretirement benefit obligation as of December 31, 2007			
		3,038	
		(2,512	
)	

Plan Assets

Pension Plans

The weighted-average asset allocations for the pension plans by asset category follow:

At December 31,	2007		2006	
Asset Category				
Equity securities	59	%	63	%
Debt securities	18		16	
Real estate	6		4	
Other	17		17	
Total	100	%	100	%

Equity securities include Verizon common stock of \$127 million and \$95 million at December 31, 2007 and 2006, respectively. Other assets include cash and cash equivalents (primarily held for the payment of benefits), private equity and investments in absolute return strategies.

Health Care and Life Plans

The weighted-average asset allocations for the other postretirement benefit plans by asset category follow:

At December 31,	2007		2006	
Asset Category				
Equity securities	74	%	72	%
Debt securities	21		21	
Other	5		7	
Total	100	%	100	%

There was no Verizon common stock held at the end of 2007 and 2006 in the health care and life plans.

This portfolio strategy emphasizes a long-term equity orientation, significant global diversification, the use of both public and private investments and professional financial and operational risk controls. Assets are allocated according to a long-term policy neutral position and held within a relatively narrow and pre-determined range. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors.

(dollars in millions)						
Year	Beginning of Year	Charged to Expense	Payments			
	Other	End of Year				
2005	\$ 753	\$ 99	\$ (251)			
	\$ (5)	\$ 596				
2006	596	343	(383)			
	88	644				
2007	644	743	(363)			
	-	1,024				

The remaining severance liability is actuarially determined. The 2007 expense includes charges for the involuntary separation of approximately 9,000 employees, including approximately 4,000 during the fourth quarter of 2007 and 5,000 expected during 2008. In addition, the expense includes costs associated with higher assumed attrition beyond 2008. The 2006 expense includes charges for the involuntary separation of 4,100 employees (see Note 3).

Note 16
Income Taxes

The components of Income Before Provision for Income Taxes, Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change are as follows:

--	--	--	--	--	--	--

(dollars in millions)						
Years Ended December 31,	2007					
	2006					
	2005					
Domestic	\$ 8,508					
	\$ 7,000					
	\$ 7,707					
Foreign	984					
	1,154					
	741					
	\$ 9,492					
	\$ 8,154					
	\$ 8,448					

The components of the provision for income taxes from continuing operations are as follows:

--	--	--	--	--	--	--

(dollars in millions)						
Years Ended December 31,	2007					
	2006					
	2005					

Current							
Federal		\$ 2,568		\$			
2,364				\$			
2,772							
Foreign		461					
		141					
		81					
State and local		545					
		421					
		661					
		3,574					
		2,926					
		3,514					
Deferred							
Federal		397					
		(9)		(844			
)					
Foreign		66					
		(45)					
		(55)					
State and local		(48)					
		(191)					
		(187)					
		415					
		(245)					
		(1,086)					
Investment tax credits		(7)					
		(7)		(7)			
Total income tax expense		\$ 3,982		\$			
2,674				\$			
2,421							

The following table shows the principal reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

--	--	--	--	--	--	--	--

Years Ended December 31,							
							2007

Other - assets	422			
	903			
	10,757			
	12,140			
Valuation allowance	(2,671)			
)			
	(2,600			
)			
Deferred tax assets	8,086			
	9,540			
Former MCI intercompany accounts receivable basis difference	1,977			
	2,003			
Depreciation	7,045			
	7,617			
Leasing activity	2,307			
	2,674			
Wireless joint venture including wireless licenses	11,634			
	12,177			
Other - liabilities	349			
	2,493			
Deferred tax liabilities	23,312			
	26,964			
Net deferred tax liability	\$			
15,226	\$ 17,424			

Employee benefits deferred tax assets include \$4,929 million and \$5,590 million at December 31, 2007 and 2006, respectively, recognized in accordance with SFAS No. 158 (see Notes 1 and 15).

At December 31, 2007, undistributed earnings of our foreign subsidiaries indefinitely invested outside of the United States amounted to approximately \$900 million. We have not provided deferred taxes on these earnings because we intend that they will remain indefinitely invested outside of the United States. Determination of the amount of unrecognized deferred taxes related to these undistributed earnings is not practical.

At December 31, 2007, we had net operating loss carry forwards for income tax purposes of approximately \$3,600 million, expiring through 2026 in various foreign, state and local jurisdictions. The amount of tax loss carry forwards reflected as a deferred tax asset above has been reduced by approximately \$1,017 million due to federal and state tax law limitations on utilization of net operating losses.

During 2007, the valuation allowance increased \$71 million. Under current accounting guidelines, approximately \$2.0 billion of the valuation allowance, if recognized, would be recorded as a reduction of goodwill.

FASB Interpretation No. 48

Effective January 1, 2007, we adopted FIN 48, which prescribes the recognition, measurement and disclosure standards for uncertainties in income tax positions. See Note 1 for a discussion of the impact to Verizon of adopting this new accounting pronouncement.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

(dollars in millions)			
Balance at January 1, 2007	\$ 2,958		
Additions based on tax positions related to the current year	141		
Additions for tax positions of prior years	291		
Reductions for tax positions of prior years	(420)		
Settlements	(11)		
Lapses of statutes of limitations	(76)		
Balance at December 31, 2007	\$ 2,883		

Included in the total unrecognized tax benefits at December 31, 2007 is \$1,245 million that, if recognized, would favorably affect the effective income tax rate. The remaining unrecognized tax benefits relate to temporary items that would not affect the effective income tax rate and uncertain tax positions resulting from prior acquisitions which, pursuant to current purchase accounting tax rules, would adjust goodwill.

We recognize any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the year ended December 31, 2007, we recognized approximately \$154 million (after-tax) for the payment of interest and penalties. We had approximately \$598 million (after-tax) and \$444 million (after-tax) for the payment of interest and penalties accrued in the balance sheet at December 31, 2007 and January 1, 2007, respectively.

Verizon or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state, local and foreign jurisdictions. The Company is generally no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2000. The Internal Revenue Service (IRS) is currently

examining the Company's U.S. income tax returns for years 2000 through 2003. As a large taxpayer, we are under continual audit by the IRS and other taxing authorities on numerous open tax positions. It is possible that the amount of the liability for unrecognized tax benefits could change by a significant amount during the next twelve month period. An estimate of the range of the possible change cannot be made until issues are further developed or examinations close.

Note 17
Segment Information

Reportable Segments

On March 30, 2007, we completed the sale of our 52% interest in TELPRI. On February 12, 2007 we entered into an MOU to sell our interest in CANTV. On December 1, 2006, we closed the sale of Verizon Dominicana. Consequently, with these three transactions, we completed the disposition of our International segment. For further information concerning the disposition of the International segment, see Note 2.

On November 17, 2006, we completed the spin-off of our Information Services segment which included our domestic print and Internet yellow pages directories business. For further information concerning the disposition of the Information Services segment, see Note 2.

We now have two reportable segments, which we operate and manage as strategic business units and organize by products and services. We measure and evaluate our reportable segments based on segment income. Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses such as our investments in unconsolidated businesses, lease financing, and other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-recurring or unusual nature. These adjustments include transactions that the chief operating decision makers exclude in assessing business unit performance due primarily to their non-recurring and/or non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results, since these items are included in the chief operating decision makers' assessment of unit performance.

Our segments and their principal activities consist of the following:

Segment	Description
Wireline	Wireline communications services include voice, Internet access, broadband video and data, next generation IP network services, network access, long distance and other services. We provide these services to consumers, carriers, businesses and government customers both domestically and internationally in 150 countries.
Domestic Wireless	Domestic Wireless's products and services include wireless voice, data products, and other value-added services and equipment sales across the United States.

The following table provides operating financial information for our two reportable segments:

(dollars in millions)						
2007		Wireline		Domestic Wireless		

	Total Segments				
External revenues	\$ 49,059		\$ 43,777		
	\$ 92,836				
Intersegment revenues	1,257		105		
	1,362				
Total operating revenues	50,316		43,882		
			94,198		
Cost of services and sales	25,220		13,456		
	38,676				
Selling, general & administrative expense	11,236		13,477		
	24,713				
Depreciation & amortization expense	9,184		5,154		
	14,338				
Total operating expenses	45,640		32,087		
	77,727				
Operating income	4,676		11,795		
	16,471				
Equity in earnings of unconsolidated businesses	-		32		
	32				
Other income and (expense), net	206		(3)	
	203				
Interest expense	(2,032	)	(251)	
	(2,283)			
Minority interest	-		(5,053)	
	(5,053)			
Provision for income taxes	(1,344	)	(2,726)	
	(4,070)			
Segment income	\$ 1,506		\$ 3,794		
	\$ 5,300				
Assets	\$ 92,264		\$ 83,755		
	\$ 176,019				
Plant, property and equipment, net	58,702		25,971		
	84,673				
Capital expenditures	10,956		6,503		
	17,459				

(dollars in millions)					
2006	Wireline		Domestic Wireless		
	Total Segments				
External revenues	\$ 49,555		\$ 37,930		
	\$ 87,485				

Intersegment revenues	1,173		113			
	1,286					
Total operating revenues	50,728		38,043			
	88,771					
Cost of services and sales	24,767		11,491			
	36,258					
Selling, general & administrative expense	11,820		12,039			
			23,859			
Depreciation & amortization expense	9,590		4,913			
	14,503					
Total operating expenses	46,177		28,443			
	74,620					
Operating income	4,551		9,600			
	14,151					
Equity in earnings of unconsolidated businesses	-		19			
	19					
Other income and (expense), net	250		4			
	254					
Interest expense	(2,062)		(452)			
	(2,514)					
Minority interest	-		(4,038)			
	(4,038)					
Provision for income taxes	(1,114)		(2,157)			
	(3,271)					
Segment income	\$ 1,625		\$ 2,976			
	\$ 4,601					
Assets	\$ 92,274		\$ 81,989			
	\$ 174,263					
Plant, property and equipment, net	57,031		24,659			
	81,690					
Capital expenditures	10,259		6,618			
	16,877					

(dollars in millions)

2005	Wireline		Domestic Wireless			
	Total Segments					
External revenues	\$ 36,628		\$ 32,219			
	\$ 68,847					
Intersegment revenues	988		82			
	1,070					
Total operating revenues	37,616		32,301			
	69,917					

Cost of services and sales	15,813	9,393			
	25,206				
Selling, general & administrative expense	8,210	10,768			
		18,978			
Depreciation & amortization expense	8,801	4,760			
	13,561				
Total operating expenses	32,824	24,921			
	57,745				
Operating income	4,792	7,380			
	12,172				
Equity in earnings of unconsolidated businesses	-	27			
	27				
Other income and (expense), net	79	6			
	85				
Interest expense	(1,701)	(601)			
	(2,302)				
Minority interest	-	(2,995)			
	(2,995)				
Provision for income taxes	(1,264)	(1,598)			
	(2,862)				
Segment income	\$ 1,906	\$ 2,219			
	\$ 4,125				
Assets	\$ 75,188	\$ 76,729			
	\$ 151,917				
Plant, property and equipment, net	49,618	22,790			
	72,408				
Capital expenditures	8,267	6,484			
	14,751				

Reconciliation To Consolidated Financial Information

A reconciliation of the results for the operating segments to the applicable line items in the consolidated financial statements is as follows:

(dollars in millions)					
	2007	2006			
	2005				
Operating Revenues					
Total reportable segments	\$ 94,198	\$ 88,771			
		\$ 69,917			

Impact of Hawaii (2005) and other operations sold (2006)	-	104		
	180			
Corporate, eliminations and other	(729	) (693		
	)	(579)		
Consolidated operating revenues - reported	\$ 93,469	\$ 88,182		
		\$ 69,518		
Operating Expenses				
Total reportable segments	\$ 77,727	\$ 74,620		
		\$ 57,745		
Merger integration costs (see Note 8)	178	232		
	-			
Access line spin-off related charges (see Note 2)	84	-		
	-			
Taxes on foreign distributions (see Note 6)	15	-		
	-			
Verizon Center relocation (see Note 3)	-	184		
	(18)			
Severance, pension and benefit charges, net (see Note 3)	772	425		
	157			
Impact of Hawaii (2005) and other operations sold (2006) (see Note 2)	-	89		
	118			
Sales of businesses net (see Note 2)	-	-		
	(530)			
Lease impairment and other items (see Note 3)	-	-		
	125			
Verizon Foundation contribution (see Note 2)	100	-		
	-			
Corporate, eliminations and other	(985	) (741		
	)	(660)		
Consolidated operating expenses - reported	\$ 77,891	\$ 74,809		
		\$ 56,937		
(dollars in millions)				
	2007	2006		
	2005			
Net Income				

Segment income - reportable segments	\$ 5,300	\$ 4,601		
		\$ 4,125		
Debt extinguishment costs (see Note 11)	-	(16)		
	-			
Merger integration costs (see Note 8)	(112)	(146)		
)	-		
Sales of businesses and investments, net (see Note 2)	5	(541)		
	)	336		
Extraordinary item (see Note 2)	(131)	-		
	-			
Access line spin-off related charges (see Note 2)	(80)	-		
	-			
Taxes on foreign distributions (see Note 6)	(610)	-		
	(206))		
Cumulative effect of accounting change (see Note 1)	-	(42)		
	-			
Verizon Center relocation, net (see Note 3)	-	(118)		
	)	8		
Severance, pension and benefit charges (see Note 3)	(477)	(258)		
	)	(95)		
Domestic print and Internet yellow pages directories business spin-off costs (see Note 2)	-	-		
	(101))	-	
Lease impairment and other items (see Note 3)	-	-		
	(133))		
Tax benefits (see Note 3)	-	-		
	336			
Income from discontinued operations, net of tax (see Note 2)	72	1,398		
		1,370		
Corporate and other	1,554	1,420		
		1,656		
Consolidated net income - reported	\$ 5,521	\$ 6,197		
		\$ 7,397		
Assets				
Total reportable segments	\$ 176,019	\$ 174,263		
		\$ 151,917		
Reconciling items	10,940	14,541		

Consolidated assets	\$ 186,959	\$ 188,804		
		\$ 168,130		

Financial information for Wireline excludes the effects of Hawaii access lines and directory operations sold in 2005, in addition to the sale of non-strategic assets of the Wireline segment sold in the first quarter of 2007.

We generally account for intersegment sales of products and services and asset transfers at current market prices. We are not dependent on any single customer.

Geographic Areas

Our foreign investments are located principally in the Americas and Europe. Domestic and foreign operating revenues are based on the location of customers. Long-lived assets consist of plant, property and equipment (net of accumulated depreciation) and investments in unconsolidated businesses. The table below presents financial information by major geographic area:

(dollars in millions)				
Years Ended December 31,	2007			
	2006			
	2005			
Domestic				
Operating revenues	\$ 89,504			
	\$ 84,731			
	\$ 69,327			
Long-lived assets	\$ 85,081			
	82,277			
	74,813			
International				
Operating revenues	\$ 3,965			
	3,451			
	191			
Long-lived assets	\$ 3,585			
	4,947			
	2,776			
Note 18				

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting shareowners' investment that, under GAAP, are excluded from net income. Significant changes in the components of other comprehensive income (loss), net of income tax expense (benefit), are described below.

Foreign Currency Translation

			(dollars in		
millions)					
Years Ended December 31,		2007			
		2006			
		2005			
Foreign Currency Translation Adjustments:					
Vodafone Omnitel		\$ 397			
		\$ 330			
		\$ (590)			
CANTV		412			
		-			
		(47)			
Verizon Dominicana		-			
		786			
		(114)			
Other international operations		29			
		80			
		(4)			
		\$ 838			
		\$ 1,196			
		\$ (755)			

We sold our interest in CANTV during the second quarter of 2007. We sold our interest in Verizon Dominicana during the fourth quarter of 2006. See Note 2 for information on CANTV and Verizon Dominicana. The foreign currency translation adjustment in 2005 represents unrealized losses from the decline in the functional currencies of our investments in Vodafone Omnitel, Verizon Dominicana and CANTV.

Unrealized Gains (Losses) on Marketable Securities

The changes in Unrealized Gains (Losses) on Marketable Securities were as follows:

	(dollars in				
--	-------------	--	--	--	--

millions)

Years Ended December 31,	2007				
	2006				
	2005				

Unrealized Gains (Losses) on Marketable Securities

Unrealized gains, net of taxes of \$13, \$30 and \$10	\$ 13				
	\$ 79				
	\$ 4				
Less reclassification adjustments for gains realized in net income, net of taxes of \$11, \$13 and \$14	(17)				
	(25)				
	(25)				
Net unrealized gains (losses) on marketable securities	\$ (4)				
	\$ 54				
	\$ (21)				

Defined Benefit Pension and Postretirement Plans

During 2007, the change in defined benefit pension and postretirement plans of \$1,948 million, net of taxes of \$661 million, represents the change in the funded status of the plans in connection with the annual pension and postretirement valuation in accordance with SFAS No. 158. The funded status was impacted by changes in actuarial assumptions, asset performance and plan experience.

Accumulated Other Comprehensive Loss

The components of Accumulated Other Comprehensive Loss are as follows:

--	--	--	--	--	--

	(dollars in				
--	-------------	--	--	--	--

millions)

At December 31,	2007				
	2006				

Foreign currency translation adjustments	\$				
1,167					

<i>Other Current Liabilities</i>				
----------------------------------	--	--	--	--

Advance billings and customer deposits	\$			
--	----	--	--	--

2,476	\$			
--------------	----	--	--	--

2,226				
-------	--	--	--	--

Dividends payable				
-------------------	--	--	--	--

	1,266			
--	--------------	--	--	--

	1,199			
--	-------	--	--	--

Other				
-------	--	--	--	--

	3,583			
--	--------------	--	--	--

	4,666			
--	-------	--	--	--

	\$			
--	----	--	--	--

7,325	\$			
--------------	----	--	--	--

8,091				
-------	--	--	--	--

Cash Flow Information

--	--	--	--	--

	(dollars in millions)			
--	-----------------------	--	--	--

Years Ended December 31,	2007			
--------------------------	-------------	--	--	--

	2006			
--	------	--	--	--

	2005			
--	------	--	--	--

<i>Cash Paid</i>				
------------------	--	--	--	--

Income taxes, net of amounts refunded	\$ 2,491			
---------------------------------------	-----------------	--	--	--

	\$ 3,299			
--	----------	--	--	--

	\$ 4,189			
--	----------	--	--	--

Interest, net of amounts capitalized	1,682			
--------------------------------------	--------------	--	--	--

	2,103			
--	-------	--	--	--

	2,025			
--	-------	--	--	--

<i>Supplemental Investing and Financing Transactions</i>				
--	--	--	--	--

Cash acquired in business combinations	17			
--	-----------	--	--	--

					2,361
					-
Assets acquired in business combinations					589
					18,511
					635
Liabilities assumed in business combinations					154
					7,813
					35
Debt assumed in business combinations					-
					6,169
					9
Shares issued to Price to acquire limited partnership interest in VZ East (Note 7)					-
					1,007
					-

Other, net cash provided by operating activities - continuing operations primarily included the add back of the minority interest's share of Verizon Wireless earnings, net of dividends paid to minority partners, of \$3,953 million in 2007, \$3,232 million in 2006 and \$1,720 million in 2005.

Note 20

Commitments and Contingencies

Several state and federal regulatory proceedings may require our telephone operations to pay penalties or to refund to customers a portion of the revenues collected in the current and prior periods. There are also various legal actions pending to which we are a party and claims which, if asserted, may lead to other legal actions. We have established reserves for specific liabilities in connection with regulatory and legal actions, including environmental matters, that we currently deem to be probable and estimable. We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods, including the Hicksville matter described below, will have a material effect on our financial condition, but it could have a material effect on our results of operations for a given reporting period.

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be necessary. Adjustments may also be necessary based upon actual conditions discovered during the remediation at any of the sites requiring remediation.

In connection with the execution of agreements for the sales of businesses and investments, Verizon ordinarily provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as financial losses.

Subsequent to the sale of Verizon Information Services Canada in 2004, we continue to provide a guarantee to publish directories, which was issued when the directory business was purchased in 2001 and had a 30-year term (before extensions). The preexisting guarantee continues, without modification, despite the subsequent sale of Verizon Information Services Canada and the spin-off of our domestic print and Internet yellow pages directories

business. The possible financial impact of the guarantee, which is not expected to be adverse, cannot be reasonably estimated since a variety of the potential outcomes available under the guarantee result in costs and revenues or benefits that may offset each other. In addition, performance under the guarantee is not likely.

As of December 31, 2007, letters of credit totaling \$225 million were executed in the normal course of business, which support several financing arrangements and payment obligations to third parties.

We have several commitments primarily to purchase network services, equipment and software from a variety of suppliers totaling \$844 million. Of this total amount, \$613 million, \$137 million, \$51 million, \$28 million, \$5 million and \$10 million are expected to be purchased in 2008, 2009, 2010, 2011, 2012 and thereafter, respectively.

Note 21				
Quarterly Financial Information (Unaudited)				
	(dollars in millions, except per share amounts)			
				Income Before Discontinued Operations,
Extraordinary Item and Cumulative Effect of Accounting Change				
Quarter Ended	Operating Revenues		Operating Income	Amount
	Per Share- Basic	Per Share- Diluted	Net Income	
2007				
March 31	\$ 22,584	\$ 3,796	\$ 1,484	\$.51
	\$.51	\$ 1,495		
June 30	23,273	4,149	1,683	.58
	.58	1,683		
September 30	23,772	4,210	1,271	.44
	.44	1,271		
December 31	23,840	3,423	1,072	.37
	.37	1,072		
2006				
March 31	\$ 21,231	\$ 3,175	\$ 1,282	\$.44
	\$.44	\$ 1,632		
June 30	21,886	3,217	1,263	.43
	.43	1,611		
September 30	22,459	3,537	1,545	.53
	.53	1,922		
December 31	22,606	3,444	1,390	.48
	.48	1,032		

• Results of operations for the first quarter of 2007 include after-tax charges of \$9 million for merger integration costs, \$131 million for an extraordinary charge related to the nationalization of CANTV, a \$70 million after-tax gain on the sale of our interest in TELPRI and a \$65 million after tax contribution to the Verizon Foundation.

• Results of operations for the second quarter of 2007 include after-tax charges of \$17 million for merger integration costs.

• Results of operations for the third quarter of 2007 include after-tax charges of \$28 million for merger integration costs, \$44 million related to access line spin-off charges and \$471 million associated with taxes on foreign distributions.

• Results of operations for the fourth quarter of 2007 include after-tax charges of \$58 million for merger integration costs, \$36 million related to access line spin-off charges, \$139 million associated with taxes on foreign distributions, and \$477 million for severance, pension and other charges.

• Results of operations for the first quarter of 2006 include after-tax charges of \$16 million for the early extinguishment of debt related to the MCI merger, \$28 million for costs associated with the relocation to Verizon Center, \$42 million for the impact of accounting for share based payments, and \$35 million for merger integration costs.

• Results of operations for the second quarter of 2006 include after-tax charges of \$48 million for merger integration costs, \$29 million for costs associated with the relocation to Verizon Center and \$186 million for severance, pension and benefits charges.

• Results of operations for the third quarter of 2006 include after-tax charges of \$16 million for merger integration costs, \$31 million for costs associated with the relocation to Verizon Center and \$17 million for severance, pension and benefits charges.

• Results of operations for the fourth quarter of 2006 include after-tax charges of \$47 million for merger integration costs, \$30 million for costs associated with the relocation to Verizon Center, \$55 million for severance, pension and benefits charges, \$541 million for the loss on sale of Verizon Dominicana included in discontinued operations, and \$101 million for costs associated with the spin-off of our directories publishing business.

Income before discontinued operations per common share is computed independently for each quarter and the sum of the quarters may not equal the annual amount.

EXHIBIT 21

Verizon Communications Inc. and Subsidiaries
Principal Subsidiaries of Registrant at December 31, 2007

Name	Jurisdiction of Organization
Verizon California Inc.	California
Verizon Delaware LLC.	Delaware
Verizon Florida LLC.	Florida
Verizon Maryland Inc.	Maryland
Verizon New England Inc.	New York

Verizon New Jersey Inc.	New Jersey
Verizon New York Inc.	New York
Verizon North Inc.	Wisconsin
Verizon Northwest Inc.	Washington
Verizon Pennsylvania Inc.	Pennsylvania
Verizon South Inc.	Virginia
GTE Southwest Incorporated (d/b/a Verizon Southwest)	Delaware
Verizon Virginia Inc.	Virginia
Verizon Washington, DC Inc.	New York
Verizon West Virginia Inc.	West Virginia
Cellco Partnership (d/b/a Verizon Wireless)	Delaware
Verizon Capital Corp.	Delaware
Verizon Business Global LLC	Delaware

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Verizon Communications Inc. (Verizon) of our reports dated February 22, 2008, with respect to the consolidated financial statements of Verizon and the effectiveness of internal control over financial reporting of Verizon, included in the 2007 Annual Report to Shareowners of Verizon.

Our audits also included the financial statement schedule of Verizon listed in Item 15(a). This schedule is the responsibility of Verizon's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following registration statements of Verizon and where applicable, related Prospectuses, of our reports dated February 22, 2008, with respect to the consolidated financial statements of Verizon and the effectiveness of internal control over financial reporting of Verizon, incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule of Verizon included in this Annual Report (Form 10-K) for the year ended December 31, 2007: Form S-8, No. 333-66459; Form S-8, No. 333-66349; Form S-4, No. 333-11573; Form S-8, No. 333-41593; Form S-8, No. 333-42801; Form S-4, No. 333-76171; Form S-8, No. 333-75553; Form S-8, No. 333-76171; Form S-8, No. 333-50146; Form S-8, No. 333-53830; Form S-4, No. 333-82408; Form S-8, No. 333-82690; Form S-3, No. 333-109028-01; Form S-3, No. 333-106750; Form S-8, No. 333-105512; Form S-8, No. 333-105511; Form S-8, No. 333-118904; Form S-8, No. 333-123374; Form S-4, No. 333-124008; Form S-8, No. 333-124008; Form S-4, No.

333-132651; Form S-8, No. 333-134846; Form S-8, No. 333-137475; Form S-3, No. 333-138705; Form S-8, No. 333-142549; and Form S-3, 333-143744.

/s/ Ernst & Young LLP	
Ernst & Young LLP	
New York, New York	
February 22, 2008	

EXHIBIT 31.1

I, Ivan G. Seidenberg, certify that:

1. I have reviewed this annual report on Form 10-K of Verizon Communications Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2008 /s/ Ivan G.

Seidenberg

Ivan G.

Seidenberg

Chairman and

Chief Executive Officer

EXHIBIT 31.2

I, Doreen A. Toben, certify that:

1. I have reviewed this annual report on Form 10-K of Verizon Communications Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially

affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2008	/s/ Doreen A. Toben
	Doreen A. Toben
	Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

I, Ivan G. Seidenberg, Chairman and Chief Executive Officer of Verizon Communications Inc. (the "Company"), certify that:

(1) the report of the Company on Form 10-K for the annual period ending December 31, 2007 (the "Report") fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the Report.

Date: February 26, 2008	/s/ Ivan G. Seidenberg
	Ivan G. Seidenberg
	Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating,

acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

I, Doreen A. Toben, Executive Vice President and Chief Financial Officer of Verizon Communications Inc. (the "Company"), certify that:

(1) the report of the Company on Form 10-K for the annual period ending December 31, 2007 (the "Report") fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the "Exchange Act"); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the Report.

Date: February 26, 2008		/s/ Doreen A. Toben
Toben		
		Doreen A. Toben
		Executive Vice
President	and Chief Financial Officer	

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

State of Delaware



Office of Secretary of State

I, MICHAEL HARKINS, SECRETARY OF STATE OF THE STATE OF DELAWARE DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "GTE OPERATIONS SUPPORT INCORPORATED" FILED IN THIS OFFICE ON THE EIGHTEENTH DAY OF DECEMBER, A.D. 1991, AT 1:30 O'CLOCK P.M.

* * * * *

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Michael Harkins
 Michael Harkins, Secretary of State

AUTHENTICATION: *3278483

DATE: 12/19/1991

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**CERTIFICATE OF INCORPORATION
OF
GTE OPERATIONS SUPPORT INCORPORATED**

1. The name of the corporation is GTE Operations Support Incorporated.
2. The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.
3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware other than the banking business, the trust business or the practice of a profession permitted to be incorporated by the Delaware Corporation Code.
4. The total number of shares of common stock which the corporation shall have authority to issue is 1,000 shares. These shares shall have a par value of \$.10.
5. To the fullest extent permitted by the General Corporation Law of Delaware as it now exists or may hereafter be amended, a director of this corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.
6. The name and mailing address of the incorporator is: Marianne Drost, One Stamford Forum, Stamford, Connecticut 06904.
7. The corporation is to have perpetual existence.

8. The corporation reserves the right to amend, alter, change or repeal any provisions contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

I, THE UNDERSIGNED, being the incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, do make this Certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 16th day of December, 1991.

Marianne Drost
Marianne Drost

STATE OF CONNECTICUT)
COUNTY OF FAIRFIELD) ss.: Stamford

On this 18th day of December, 1991; personally appeared before me Marianne Drost, personally known to me, and she did acknowledge that she signed, sealed, and delivered this Certificate of Incorporation as her voluntary deed and deposed that the facts stated therein are true.

Susan C. Ciolek
Notary Public
My Commission Expires: March 31, 1994

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 04:30 PM 02/01/1993
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BY CHERYL WYATT

[Delaware]

CERTIFICATE OF MERGER

OF

OSRAM ACQUISITION CORPORATION, a New York corporation

INTO

GTE PRODUCTS CORPORATION, a Delaware corporation

Pursuant to Section 252 of the Delaware General Corporation Law

The undersigned corporation organized and existing under and by virtue of the
General Corporation Law of the state of Delaware,

DOES HEREBY CERTIFY:

FIRST: That the names and states of incorporation of each of the constituent
corporations of the merger are as follows:

<u>Name</u>	<u>State of Incorporation</u>
OSRAM Acquisition Corporation	New York
GTE Products Corporation	Delaware

CertMerg.GTE

**P02/

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SECOND: That an Agreement and Plan of Merger between the parties to the merger has been approved, adopted, certified, executed and acknowledged by each of the constituent corporations in accordance with the requirements of Section 252 of the General Corporation Law of the State of Delaware.

THIRD: That the name of the surviving corporation of the merger is GTE Products Corporation, which shall herewith be changed to OSRAM SYLVANIA Inc.

FOURTH: That the amendment or changes in the Certificate of Incorporation of GTE Products Corporation, the surviving corporation, as are to be effected by the merger are as follows:

Article **FIRST** is amended to read in its entirety:

"The name of the Corporation is OSRAM SYLVANIA Inc."

FIFTH: That the executed Agreement and Plan of Merger is on file at the principal place of business of the surviving corporation. The address of the principal place of business of the surviving corporation is 100 Endicott Street, Danvers, MA 01923.

SIXTH: That a copy of the Agreement and Plan of Merger will be furnished by the surviving corporation, on request and without cost to any stockholder of any constituent corporation.

EXECUTION

NORTH AMERICAN LIGHTING

NAL ENVIRONMENTAL AGREEMENT

This NAL Environmental Agreement (as such agreement may be amended from time to time, the "Agreement") is entered into as of August 6, 1992 among SIEMENS CORPORATION, a Delaware corporation ("Siemens"), OSRAM ACQUISITION CORPORATION, a Delaware corporation ("Buyer"), and GTE CORPORATION, a New York corporation ("GTE"), GTE PRODUCTS OF CONNECTICUT CORPORATION, a Connecticut corporation ("GTE Connecticut"), and GTE INTERNATIONAL INCORPORATED, a Delaware corporation ("GTE International"; GTE Connecticut and GTE International, collectively, the "Sellers").

R E C I T A L S

WHEREAS, GTE, the Sellers and Buyer have entered into a NAL Stock Purchase Agreement dated as of the date hereof (as such agreement may be amended from time to time, the "NAL Stock Purchase Agreement") pursuant to which Buyer is to acquire the stock of each of the corporations set forth on Schedule I to the NAL Stock Purchase Agreement (each, a "Company") held by the Sellers;

WHEREAS, the Companies and their Subsidiaries own or control certain real properties used in the operation of the businesses of the Companies and their Subsidiaries;

WHEREAS, the Companies and their Subsidiaries use, store and produce certain materials regulated by law in connection with the operation of the businesses of the Companies and their Subsidiaries; and

WHEREAS, GTE, certain Subsidiaries of the Companies (the "Selling Subsidiaries") and Buyer have entered into a NAL Asset Purchase Agreement dated as of the date hereof (as such agreement may be amended from time to time, the "NAL Asset Purchase Agreement") pursuant to which Buyer is to acquire substantially all of the assets of the Selling Subsidiaries (any and all assets sold pursuant to the NAL Asset Purchase Agreement, the "Assets") as set forth in the NAL Asset Purchase Agreement, including certain Assets which are Acquired Facilities (as defined herein).

NOW, THEREFORE, in consideration of the mutual promises contained herein and intending to be legally bound, the parties hereto agree as follows:

**ARTICLE I
DEFINITIONS**

For all purposes of this Agreement and the Exhibits and Schedules delivered pursuant to this Agreement, and except as otherwise expressly provided, capitalized terms used herein but not defined herein shall have the meaning specified in the NAL Stock Purchase Agreement. In addition, the following terms shall have the following meanings:

"Acquired Facilities" means those facilities owned or leased by any Company or any Subsidiary of any Company as of the Closing Date and those facilities which are Assets, and which are listed on Schedule 1.1 hereto.

"Allocable Losses" means any and all Environmental Liabilities (including those arising from Remediation Claims, Third Party Claims and Mixed Source Claims) incurred by GTE, any Seller, Buyer, any Company or any Subsidiary of any Company arising out of or relating to applicable Existing Environmental Requirements and attributable to conditions arising out of the use, ownership or operation of any Acquired Facility prior to the Closing Date (including those conditions which become, or will become, Known Continuing Conditions); provided that (i) with respect to Remediation Claims (or the relevant portion of any Mixed Source Claim that is a Remediation Claim), Allocable Losses are limited to those Environmental Liabilities that are commercially reasonable in the absence of the allocation and indemnification set forth in Article II hereof, and (ii) Allocable Losses do not include any and all costs attributable to the time or efforts of employees of GTE, any Seller, Buyer, any Company or any Subsidiary of any Company.

"Assumed Liabilities" means any and all Environmental Liabilities either (i) arising out of or relating to any facility, site, location or business (whether past or present and whether active or inactive) owned, operated or leased by any Company or any Subsidiary of any Company on or prior to the Closing Date that is not an Acquired Facility or (ii) arising under CERCLA or similar laws for any Company's or any Subsidiary's shipping of, or arranging for the shipment of, materials for offsite treatment, storage or disposal at any facility other than an Acquired Facility prior to the Closing Date, but only to the extent such Environmental Liability relates to any Company's or any Subsidiary's shipping of, or arranging for the shipment of, materials for offsite treatment, storage or disposal at such facility prior to the Closing Date.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601-9657, as amended by the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499, 100 Stat. § 1613 (October 17, 1986).

"Environmental Liabilities" means all liabilities, obligations, responsibilities, losses, damages, deficiencies, punitive damages, fines, penalties, treble damages, costs and expenses (including, without limitation, all reasonable fees, disbursements and expenses of counsel, experts and consultants), interest, bonds, security or other financial assurance, either (i) resulting from any claim or demand by any third party (including employees) or Governmental Entity seeking to enforce an Environmental Requirement or a right of contribution or indemnification arising thereunder (other than pursuant to this Agreement), or to recover for tort liability arising out of an Environmental Requirement, or (ii) arising or resulting from, relating to or as a consequence of (x) noncompliance with any Environmental Requirements or (y) the presence, migration, release or threatened release of a Regulated Material in or into the environment at or from an Acquired Facility.

"Environmental Requirements" means all applicable foreign, federal, state, provincial, interstate and local government or agency laws, statutes, ordinances, rules, notices, regulations, Orders, Approvals, Permits and requirements of common law relating to protection of the environment.

"Existing Environmental Requirements" means those applicable provisions of any Environmental Requirements (including any interim final regulations) that either (i) are both in effect and required to be met on or prior to the Closing Date or (ii) to the extent both deadlines and standards for compliance by GTE, any Seller, any Company or any of their Subsidiaries are in effect on or prior to the Closing Date, are required to be met within five years of the Closing Date.

"Indemnified Party" means any party entitled to be paid, indemnified, defended or held harmless pursuant to Article II hereof.

"Indemnifying Party" means any party obligated to pay, indemnify, defend or hold harmless pursuant to Article II hereof.

"Known Continuing Conditions" means any and all conditions existing on or prior to the Closing Date and arising or resulting from, relating to or as a consequence of (i) noncompliance with any applicable Existing Environmental Requirements at an Acquired Facility, or (ii) the release of a Regulated Material in or into the environment at or from an Acquired Facility, where (A) such noncompliance is continued by Buyer, any Company or any Subsidiary of any Company after the Closing Date or such release continues as a result of the use or operation of any Acquired Facility by Buyer, any Company or any Subsidiary of any Company after the Closing Date and (B) such conditions become known to any vice president or higher ranking officer of Buyer, any Company, any Subsidiary of any Company or any of their respective successors or assigns. For purposes of

the indemnification provisions contained in Section 2.3(c), any condition that becomes known to any vice president or higher ranking officer of Buyer, any Company or any Subsidiary of any Company or any of their respective successors and assigns prior to the Closing Date shall be deemed to have become known to such officer on the Closing Date.

"Mixed Source Claims" means claims that have components which are Remediation Claims and components which are Third Party Claims.

"Regulated Material" means:

(i) any substance that is defined or listed in, or otherwise classified pursuant to, any applicable Environmental Requirements as a "hazardous substance," "hazardous material," "hazardous waste" or "toxic substance," or any other formulation intended to define, list or classify substances by reason of deleterious properties such as ignitibility, corrosivity, reactivity, radioactivity, carcinogenicity or toxicity; and

(ii) any pollutant or contaminant, or petroleum or petroleum products, as defined pursuant to any applicable Environmental Requirements.

"Remediation Claims" means any claim that is not in whole or in part a Third Party Claim.

"Third Party Claims" means any claim for money damages brought by a third party for personal injury or property damage where resolution of such claim does not involve remediation or other action.

**ARTICLE II
ALLOCATION OF ENVIRONMENTAL LIABILITIES;
INDEMNIFICATION; RESPONSIBILITY**

2.1 Acknowledgement.

GTE, each Seller and Buyer acknowledge and agree that the purchase price relating to each Company takes into account the allocation of Environmental Liabilities set forth herein. It is the intent of the parties that this Article II shall be the only allocation of Environmental Liabilities among them.

2.2 Indemnification Obligations of GTE and Sellers.

Effective as of the Closing, GTE agrees on behalf of itself and on behalf of each Seller to indemnify and hold harmless Buyer, each Company and each of their Subsidiaries, and each Seller agrees only on behalf of itself, to indemnify and

hold harmless Buyer, the Company the Stock of which was conveyed by such Seller and each of its Subsidiaries, and, in each case, their respective directors, officers, employees, Affiliates, agents and assigns, from and against:

(a) any and all Assumed Liabilities;

(b) to the extent that an aggregate of \$35,000,000 of Allocable Losses have been paid by Buyer, the Companies and their Subsidiaries in accordance with Section 2.3(a), sixty percent of each dollar of Allocable Losses based on claims not covered by Section 2.3(c) up to a maximum of \$42,000,000; and

(c) to the extent that an aggregate of \$63,000,000 of Allocable Losses have been paid by Buyer, the Companies and their Subsidiaries in accordance with Sections 2.3(a) and (b), any and all Allocable Losses based on claims not covered by Section 2.3(c).

2.3 Indemnification Obligations of Buyer.

Effective as of the Closing, Buyer agrees to indemnify and hold harmless GTE, the Sellers and their respective directors, officers, employees, Affiliates, agents and assigns from and against:

(a) any and all Allocable Losses based on claims not covered by Section 2.3(c) until an aggregate of \$35,000,000 of Allocable Losses have been paid by Buyer, the Companies and their Subsidiaries;

(b) to the extent that an aggregate of \$35,000,000 of Allocable Losses have been paid by Buyer, the Companies and their Subsidiaries in accordance with Section 2.3(a), forty percent of each dollar of Allocable Losses based on claims not covered by Section 2.3(c) up to a maximum of \$28,000,000;

(c) any and all Environmental Liabilities arising out of a Known Continuing Condition to the extent arising on or after the later of (x) one year following the date that such condition became a Known Continuing Condition and (y) to the extent that (A) Buyer, any Company or any of their Subsidiaries, or any of their successors or assigns promptly commenced all actions reasonably necessary and commercially reasonable to remedy such condition and (B) such action takes more than one year to complete from the date the such condition became a Known Continuing Condition, the date on which such action is terminated or completed; and

(d) any and all Environmental Liabilities attributable to conditions arising out of the use, ownership or operation

of any Acquired Facility that are not Allocable Losses or Assumed Liabilities, including (x) any and all Environmental Liabilities arising under CERCLA or similar laws for any Company's or any Subsidiary's shipping of, or arranging for the shipment of, materials for offsite treatment, storage or disposal at any facility other than an Acquired Facility on or after the Closing Date and (y) any and all Environmental Liabilities not constituting Known Continuing Conditions that are attributable to conditions arising out of the use, ownership or operation of any Acquired Facility on or after the Closing Date.

2.4 Allocation of Certain Responsibilities.

(a) Buyer for itself and its successors and assigns hereby agrees to, or to cause the Companies and their Subsidiaries to, perform or otherwise discharge or cause to be discharged any and all Environmental Liabilities which (x) are subject to Section 2.2(b), 2.2(c) or 2.3 and (y) arise from Remediation Claims or Mixed Source Claims where the Third Party Claim component of such Mixed Source Claim is either not material or may not be readily segregated from the Remediation Claim component of such Mixed Source Claim.

(b) GTE and the Sellers, for themselves and their successors and assigns, hereby agree to perform or otherwise discharge or cause to be discharged any and all Environmental Liabilities which (x) are subject to Section 2.2(a) and (y) arise from Remediation Claims or Mixed Source Claims where the Third Party Claim component of such Mixed Source Claim is either not material or may not be readily segregated from the Remediation Claim component of such Mixed Source Claim.

(c) The obligation to perform or otherwise discharge any and all Environmental Liabilities which are not covered by Section 2.4(a) or 2.4(b) shall be allocated between GTE and the Sellers, on the one hand, and Buyer, the Companies and their Subsidiaries, on the other hand, pursuant to the procedures set forth in Section 2.6(b).

2.5 Releases.

Buyer hereby releases and shall cause the Companies and their Subsidiaries to release GTE, each Seller and their Affiliates from any and all Environmental Liabilities, except as expressly provided in this Article II. GTE and each Seller hereby release Buyer, the Companies and their Subsidiaries from any and all Environmental Liabilities which are subject to Section 2.2(a) hereof.

2.6 Procedures.

(a) Notices.

(i) Any party seeking indemnification of any Environmental Liability or potential Environmental Liability arising from a claim asserted by any third party shall give written notice to the party from whom indemnification is sought. Written notice to the Indemnifying Party of the existence of such a claim shall be given by the Indemnified Party within 30 days after its receipt of a written assertion of liability from the third party. Except to the extent set forth in Section 2.6(a)(ii) or Section 2.9, the Indemnified Party shall not be foreclosed from indemnification hereunder by any failure to provide timely notice of the existence of a claim of any third party to the Indemnifying Party except to the extent that the Indemnifying Party has been materially prejudiced as a direct result of such delay.

(ii) No obligation of GTE or any Seller shall arise under Section 2.2(b) or 2.2(c) unless and until Buyer submits to GTE and the pertinent Seller a written notice, which must be received within five years of the Closing Date, containing reasonable information sufficient for GTE and such Seller to confirm the nature of the claim; the work, if applicable, required to address the claim and the anticipated costs and projected timetable to complete the work. In addition, with respect to a claim relating to Known Continuing Conditions, Buyer, the pertinent Company or Subsidiary shall include the date upon which such condition became a Known Continuing Condition. Assuming the notice referred to above has been timely delivered, neither GTE nor any Seller shall be obligated to make any indemnification payment under Section 2.2(b) or 2.2(c) unless and until Buyer submits to GTE and the pertinent Seller a written notice containing reasonable information sufficient for GTE and such Seller to confirm (A) that the costs incurred are Allocable Losses and (B) that an aggregate of \$35,000,000 of Allocable Losses have been paid by Buyer, the Companies and their Subsidiaries.

(b) Defense. The procedures set forth below relate to indemnifiable claims of third parties that are not covered by Sections 2.4(a) and 2.4(b).

(i) The Indemnifying Party may, at its option and expense, participate in the defense of a claim by any third party. At the request of the Indemnified Party, the Indemnifying Party shall promptly assume the defense (including the costs thereof) of the indemnifiable claim. The Indemnifying Party shall retain experienced counsel reasonably satisfactory to the Indemnified Party and there-

after shall control defense of the claim. Notwithstanding the foregoing, the Indemnified Party shall have the right to retain counsel of its choice and control the defense of the indemnifiable claim under any of the following circumstances:

(x) The Indemnifying Party fails to assume the defense of a claim within 30 days after receiving written notice of the existence of the claim and, in any event, the Indemnified Party may retain such counsel and control such defense during such 30-day notice period (unless, prior to the end of such 30 days, the Indemnifying Party assumes such defense); or

(y) The Indemnifying Party agrees to assume the defense of a claim but either reserves its rights to challenge, or does not upon request acknowledge in writing, its obligation to the Indemnified Party; or

(z) The Indemnified Party reasonably believes and so notifies the Indemnifying Party in writing that the claim, even if indemnified for, materially and adversely will affect its business, financial condition or results of operations.

(ii) If the Indemnifying Party fails to assume such defense, the Indemnified Party may compromise or settle the claim on behalf of and for the account and risk of the Indemnifying Party, who shall be bound by the result.

(iii) In all cases, the party without the right to control the defense of the indemnifiable claim may participate in the defense at its own expense and with its own counsel.

(iv) In the event that any claim of any third party involves both indemnifiable claims and claims for which no indemnification is owed by the Indemnifying Party to the Indemnified Party, then the Indemnifying Party and the Indemnified Party shall jointly determine at all times thereafter the actions to be taken with respect to such claims and the control, investigation, prosecution, defense and settlement thereof.

2.7 Tax Adjustments.

Any amounts payable by the Indemnifying Party to or on behalf of an Indemnified Party in respect of an Environmental Liability or Allocable Loss shall be adjusted as follows:

(a) If such Indemnified Party is liable for any additional Taxes as a result of the payment of amounts in respect of an indemnifiable claim, the Indemnifying Party

will pay to the Indemnified Party in addition to such amounts in respect of the Environmental Liability or Allocable Loss within 10 days after being notified by the Indemnified Party of the payment of such liability (i) an amount equal to such additional Taxes (the "Tax Reimbursement Amount") plus (ii) any additional amounts required to pay additional Taxes imposed with respect to the Tax Reimbursement Amount and with respect to amounts payable under this clause (iii), with the result that the Indemnified Party shall have received from the Indemnifying Party, net of the payment of Taxes, an amount equal to the Environmental Liability or Allocable Loss to be paid under Section 2.2 or 2.3.

(b) The Indemnified Party shall reimburse the Indemnifying Party an amount equal to the net reduction in any year in the liability for Taxes (that are based upon or measured by income) of the Indemnified Party or any member of a consolidated or combined tax group of which the Indemnified Party is, or was at any time, part, which reduction is actually realized with respect to any period after the Closing Date and which reduction would not have been realized but for the amounts paid (or any audit adjustment or deficiency with respect thereto, if applicable) in respect of a Environmental Liability or Allocable Loss, or amounts paid by the Indemnified Party pursuant to this paragraph (a "Net Tax Benefit"). The amount of any Net Tax Benefit shall be paid not later than 15 days after the date on which such Net Tax Benefit is realized, whether through a reduction of Taxes, refund of Taxes paid or credit against Taxes due; provided, however, that if the amount of any Net Tax Benefit is subsequently affected by reason of any event or events, including any payment of Taxes by such Indemnified Party with respect to the loss of such Net Tax Benefit upon audit or litigation, appropriate adjustments and payments to take into account the increase or decrease in such Net Tax Benefit shall be made between the Indemnified Party and the Indemnifying Party within 15 days after such event or events. Any expenses associated with the realization of a Net Tax Benefit or any contest or proceeding with respect to a Net Tax Benefit shall be deemed to reduce such Net Tax Benefit. Buyer agrees to provide GTE's independent accountants with assistance and such documents and records reasonably requested by them that are relevant to their ability to determine whether a Net Tax Benefit has been realized including copies of Tax Returns, estimated tax payments, schedules, and related supporting documents, provided that such accountants will keep confidential all information obtained from review of Buyer's documents and records and only certify to GTE whether or not a Net Tax Benefit exists and the amount thereof.

2.8 Settlement Limitations.

Notwithstanding anything in this Article II to the contrary (other than Section 2.6(b)(ii)), neither the Indemnifying Party nor the Indemnified Party shall, without the written consent of the other party, settle or compromise any indemnifiable claim or permit a default or consent to entry of any judgment, except that (x) GTE and the pertinent Seller may settle or compromise any indemnifiable claim if it relates to, or the claim resulting in such judgment would have given rise to, an indemnifiable claim under Section 2.2(a) and (y) Buyer, the Companies and their Subsidiaries may settle or compromise any indemnifiable claim if it relates to, or the claim resulting in such judgment would have given rise to, an indemnifiable claim under Section 2.3(a), 2.3(c) or 2.3(d) (to the extent no component of such claim is covered by 2.3(b)). The parties hereto agree that any settlement or compromise of any indemnifiable claim by both parties shall, if applicable, include an agreement as to the amount of the Allocable Losses. If a settlement offer solely for money damages is made by the applicable third party claimant, and the Indemnifying Party notifies the Indemnified Party in writing of the Indemnifying Party's willingness to accept the settlement offer and pay the amount called for by such offer without reservation of any rights or defenses against the Indemnified Party, the Indemnified Party may continue to contest such claim, free of any participation by the Indemnifying Party, and the amount of any ultimate liability with respect to such indemnifiable claim that the Indemnifying Party has an obligation to pay hereunder shall be limited to the lesser of (A) the amount of the settlement offer that the Indemnified Party declined to accept plus the Environmental Liabilities or Allocable Losses of the Indemnified Party relating to such indemnifiable claim through the date of its rejection of the settlement offer and (B) the aggregate Environmental Liabilities or Allocable Losses of the Indemnified Party with respect to such claim. If the Indemnifying Party makes any payment on any indemnifiable claim, the Indemnifying Party shall be subrogated, to the extent of such payment, to all rights and remedies of the Indemnified Party to any insurance benefits or other claims of the Indemnified Party with respect to such claim.

2.9 Survival.

This Article II and the indemnification hereunder shall survive the Closing and shall remain in effect indefinitely, except with respect to Sections 2.2(b) and (c) as to which the indemnification shall survive for a period of five years after the Closing Date. Any matter as to which a claim has been asserted by notice to the other party pursuant to Section 2.6(a)(ii) that is pending or unresolved at the end of any applicable limitation period shall continue to be covered by this Article II notwithstanding any applicable statute of limitations (which the parties hereby waive) until such matter is finally

terminated or otherwise resolved by the parties under this Agreement or by a court of competent jurisdiction and any amounts payable hereunder are finally determined and paid.

2.10 Actual Damages.

Any indemnifiable claim shall be limited to the amount of actual Environmental Liabilities or Allocable Losses sustained by the Indemnified Party and shall be net of any insurance proceeds received from insurance companies, including affiliated insurance companies. Notwithstanding anything to the contrary contained herein, Environmental Liabilities or Allocable Losses with respect to claims of third parties shall include consequential damages of such third party (but not of the Indemnified Party).

2.11 Assumption By Companies and Subsidiaries.

Buyer agrees to cause each Company and each of their Subsidiaries to enter into an agreement for the benefit of GTE and the Sellers immediately after the consummation of the Closing pursuant to which such Companies and such Subsidiaries (i) will assume the indemnification obligations of Buyer set forth herein and (ii) release GTE, each Seller and their Affiliates to the extent set forth in Section 2.5. Such agreements will be substantially in the form attached to this Agreement as Exhibit A.

2.12 Acknowledgment.

Buyer hereby acknowledges, on behalf of itself, each Company and each of their Subsidiaries, that (i) with respect to Environmental Liabilities, the insurance policies (and benefits thereunder) listed on Schedule 2.12 (the "Insurance Policies") have been assigned to an Affiliate of GTE and (ii) neither Buyer, nor any Company or any Subsidiary of any Company shall have any rights to any Insurance Policies (or benefits thereunder) with respect to Environmental Liabilities. Notwithstanding the foregoing, to the extent that Insurance Policies cover asbestos or hard metal bodily injury claims, the benefits of such Insurance Policies remain available to Buyer, any Company or any Subsidiary of any Company.

2.13 Treatment of Payments.

All payments made pursuant to this Article II shall be treated as provided in Section 8.8 of the NAL Stock Purchase Agreement.

ARTICLE III
PERMITS AND APPROVALS; LITIGATION;
CLOSING CONDITIONS

3.1 Duties to Cooperate.

GTE, each Seller and Buyer shall cooperate and use their best efforts to obtain (and will promptly prepare all registrations, filings and applications, requests and notices preliminary to) (a) those Approvals and Permits required by any applicable Existing Environmental Requirement that are held by GTE, any Seller, any Company or any Subsidiary of any Company to enable any Company and its Subsidiaries or the Assets to continue operations in the same manner subsequent to the Closing Date as before the Closing Date, and (b) those Approvals and Permits required by any applicable Existing Environmental Requirement necessary to effect the transfer of the Stock contemplated by the NAL Stock Purchase Agreement and the Assets contemplated by the NAL Asset Purchase Agreement. GTE, each Seller and Buyer shall promptly prepare, or cause to be prepared, all registrations, filings and applications, requests and notices preliminary to all such Approvals and Permits and shall furnish each other such necessary information and reasonable assistance as the other may reasonably request in connection with the preparation of such registrations, filings or applications under the provisions of such applicable Existing Environmental Requirements. GTE, each Seller and Buyer shall supply to each other copies of all correspondence, filings or communications, including file memoranda evidencing telephonic conferences, by such party or its Affiliates with any Governmental Entity or members of its staff, with respect to the subject matter of this Section 3.1.

3.2 Litigation Representation.

GTE represents, warrants and agrees for itself and each Seller, and each Seller represents, warrants and agrees for itself, each Company the Stock of which it owns directly and each Subsidiary of any such Company, as follows:

(a) There is no Order or Action pending or, to the best knowledge of the pertinent Seller, threatened, against or affecting any Company or any Subsidiary of any Company or any of their tangible properties or assets the basis of which is Environmental Liabilities (other than Assumed Liabilities) and that individually or in the aggregate would reasonably be expected to have a material adverse effect on (x) the ability of GTE or any Seller to consummate the transactions contemplated by the NAL Stock Purchase Agreement or (y) the continued operations of the Companies and their Subsidiaries taken as a whole substantially in the manner in which such operations have been conducted to date by such entities.

(b) Schedule 3.2 lists each Order or Action, the basis of which is Environmental Liabilities (other than Assumed Liabilities) and that (i) involves a claim, or to the pertinent Seller's knowledge potential claim, of liability in excess of \$10,000,000 against or affecting any Company or any Subsidiary of any Company or any of their respective tangible properties or assets or (ii) enjoins or seeks to enjoin any activity by any Company or any Subsidiary of any Company if such injunction would, or if entered would, (x) interfere with the continued operations of the Companies, their Subsidiaries and the Assets taken as a whole substantially in the manner in which such operations have been conducted to date by such entities or (y) constitute a Material Adverse Circumstance.

The representations and warranties set forth in this Section 3.2 shall terminate at, and not survive, the Closing.

3.3 Conditions to Closing.

(a) The obligations of Buyer to effect the Closing under the NAL Stock Purchase Agreement and the closing under the NAL Asset Purchase Agreement shall be subject to the following conditions with respect to each Company or the Assets that are the subject of such Closing, unless waived in writing by Buyer:

(i) Those Permits and Approvals required by any applicable Existing Environmental Requirement to be held by GTE, any Seller, any Company or any Subsidiary of any Company to enable such Company to continue operations at any manufacturing facility or distribution center that is an Acquired Facility in substantially the same manner subsequent to the Closing Date as before the Closing Date shall have been received or obtained on or prior to or shall otherwise be effective as of the Closing Date except for any such Permit or Approval the failure to have received or obtained would not, individually or in the aggregate, constitute a Material Adverse Circumstance or otherwise materially interfere with the conduct of the business at any manufacturing facility or distribution center that is an Acquired Facility.

(ii) Any Permit and Approval required by any applicable Existing Environmental Requirement necessary to effect the transfer of the Stock of such Company or the transfer of Assets shall have been received or obtained on or prior to or shall otherwise be effective as of the Closing Date.

(iii) No Material Adverse Circumstance with respect to the Business based on a condition that could give rise to an Environmental Liability not known to Buyer as of the date

hereof shall have occurred and be continuing as of the Closing Date.

(b) The failure to receive any Approval or Permit required under Section 3.3(a)(i) shall not excuse Buyer from its obligations to consummate the Closing if the Governmental Entity from which such Approval or Permit must be received (i) provides reasonably satisfactory assurances to Buyer that such Approval or Permit will be issued or otherwise remedied after the Closing Date and (ii) allows operations to continue without the imposition on Buyer, any Company or any Subsidiary of any fines, penalties or other sanctions or any material limitations on the affected operations.

ARTICLE IV CONTINUING COVENANTS

4.1 Obligation to Maintain Records.

Buyer shall maintain, or shall cause the Companies and their Subsidiaries to maintain, any records or other documents at the Acquired Facilities relating to the subject matter of this Agreement for at least five years after the Closing Date; provided that if Buyer, any Company or any Subsidiary makes a claim against GTE or any Seller under the terms of this Agreement, Buyer shall maintain, or shall cause the pertinent Company or Subsidiary to maintain, any records or other documents relating to such claims until such claim is resolved; and provided further that with respect to any record or other documents relating to any matter within the scope of Assumed Liabilities, Buyer shall maintain, or shall cause the pertinent Company or Subsidiary to maintain, any such record or other documents indefinitely or until such time as the pertinent Seller shall notify Buyer that it is no longer necessary to maintain such records or other documents. GTE and the pertinent Seller also shall maintain any records or other documents relating to the subject matter of this Agreement for at least five years after the Closing Date.

4.2 Cooperation Between Buyer and Sellers After the Closing Date.

(a) Subject to doctrines of legal privilege, Buyer shall cooperate with, and shall cause the Companies and their Subsidiaries to cooperate with, GTE and each Seller to the extent necessary to allow GTE or such Seller to, among other things, obtain access to all or any portion of the Acquired Facilities, and to records or other documents in the possession or control of Buyer, any Company or any Subsidiary. In addition, (i) GTE and each Seller agree to permit Buyer and/or the pertinent Company or Subsidiary to be present and participate in any negotiations with the Governmental Entities having jurisdiction with respect to any

work to be undertaken hereunder and (ii) Buyer agrees to permit, and shall cause the Companies and their Subsidiaries to permit, GTE and the pertinent Seller to be present and participate in any negotiations with the Governmental Entities having jurisdiction with respect to any work to be undertaken hereunder.

(b) If after the Closing Date, GTE, any Seller or Buyer, any Company or any Subsidiary must comply with any Environmental Requirement, or if GTE, any Seller or Buyer, any Company or any Subsidiary is subject to any claim or Action with respect to Environmental Liabilities or Assumed Liabilities, GTE, such Seller and Buyer shall cooperate, and Buyer shall cause the Companies and their Subsidiaries to cooperate, to the extent necessary to permit such actions to be taken as may be necessary to comply with such Environmental Requirement. Buyer shall provide, and shall cause the Companies and their Subsidiaries to provide, the pertinent Seller with notice as soon as practicable of (i) any oral or written communication relating to Assumed Liabilities and (ii) any condition that has become a Known Continuing Condition (and in any event such notice of a Known Continuing condition shall be given no later than one year from such condition becoming a Known Continuing Condition).

ARTICLE V EXCLUSIVE AGREEMENT

5.1 General.

GTE, each Seller and Buyer, for themselves and their Affiliates and for their successors and assigns, acknowledge that all rights, liabilities, representations, warranties, disclosures, indemnifications, remedies and any other matters relating to Regulated Materials, Environmental Requirements, Environmental Liabilities and Allocable Losses shall be governed for all purposes by this Agreement; provided that the general terms of Sections 4.1, 4.2(a), 4.2(b)(i), 4.3, 4.4(ii), 5.3, 9.2, 9.5, 9.6, 9.7, 9.8, 9.9 and 9.10 of the NAL Stock Purchase Agreement shall apply to such matters and are incorporated herein by reference.

5.2 Permits and Approvals.

Without limiting the scope of Section 5.1, any matter relating to any Permit or Approval issued or required to be issued pursuant to any Environmental Requirement shall be governed for all purposes by this Agreement.

ARTICLE VI
MISCELLANEOUS

6.1 Documentary Conventions.

This Agreement shall be governed by all the Documentary Conventions.

6.2 Termination.

This Agreement shall terminate (a) in its entirety if the NAL Stock Purchase Agreement terminates pursuant to Section 7.1 thereof, or (b) with respect to any Assets, if the NAL Asset Purchase Agreement is terminated with respect to such Assets. In the event that this Agreement shall be terminated on account of a termination of the NAL Stock Purchase Agreement pursuant to Section 7.1 thereof, the parties shall have no further rights or liabilities hereunder. In the event that this Agreement shall be terminated with respect to any Assets pursuant to the NAL Asset Purchase Agreement, the parties shall have no further rights or liabilities under this Agreement with respect to such Assets; provided that all other rights or liabilities hereunder shall remain in full force and effect.

6.3 Survival.

Except as provided in Sections 2.9 and 6.2 of this Agreement, this Agreement, its terms, conditions and limitations shall survive the Closing Date and shall remain in full force and effect indefinitely.

6.4 Effective Dates.

The provisions of Article II of this Agreement shall take effect, as to any Company or any Assets, as of the Closing relating to the acquisition of the Stock of such Company or such Assets. All other provisions of this Agreement shall take effect upon the date of execution hereof.

6.5 Assignees of Buyer.

References to Buyer in this Agreement shall be deemed to include any Person to whom Buyer has validly assigned its rights under the NAL Stock Purchase Agreement or NAL Asset Purchase Agreement to acquire any of the Assets.

6.6 Joint and Several Obligations.

Siemens shall be jointly and severally liable for any and all liabilities, covenants, undertakings and obligations undertaken by Buyer under this Agreement and entitled to assert all rights and defenses available to Buyer hereunder. Without limiting the generality of the foregoing, all covenants and

liabilities in this Agreement that refer to Buyer shall be deemed to be covenants and obligations of both Buyer and Siemens.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their authorized representatives as of the date first above mentioned.

SIEMENS CORPORATION

By: LOTW

Its: PRESIDENT / CEO

By: _____

Its: _____

OSRAM ACQUISITION CORPORATION

By: MMM

Its: PRESIDENT / CEO

By: Maier

Its: V. PRESIDENT

GTE CORPORATION

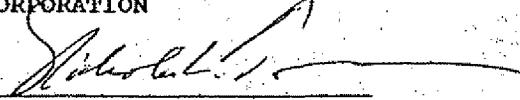
By: [Signature]

Its: SO. V. PRESIDENT - FINANCE

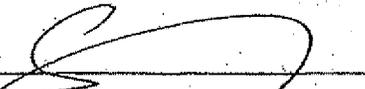
By: [Signature]

Its: AUTHORIZED SIGNATORY

GTE PRODUCTS OF CONNECTICUT CORPORATION

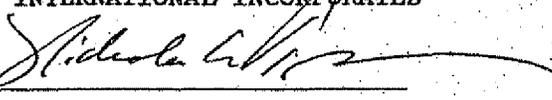
By: 

Its: PRESIDENT

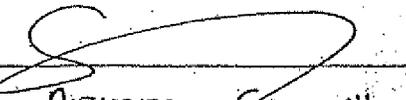
By: 

Its: AUTHORIZED SIGNATORY

GTE INTERNATIONAL INCORPORATED

By: 

Its: AUTHORIZED SIGNATORY

By: 

Its: AUTHORIZED SIGNATORY

Kansas City Commerce Center Building, #17 1754-01	9755-9771 Commerce Parkway Lenexa 66219	KS	USA
Kansas City Commerce Center Building, #17 1754-02	9755-9771 Commerce Parkway Lenexa 66219	KS	USA
GTE Transport (truck terminal) 0492-01	428 Fairman Road Lexington 40512	KY	USA
Beaver Development 1776-01	215 Beaver Drive Dubois 15801	PA	USA
GTE Transport 0494-01 1763-01	Road 6, Box 35A Bowman Road Thomasville 17404 750 South Michigan Street Seattle 98108	PA WA	USA USA

**LIGHTING INTERNATIONAL
LEASED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
GTE Products Corp. 1598-36	Royal Industrial Park Edificio C. Carr 869 KM 1.5 Catano 00936-4384	PR	USA
1599-09	1153 Pioneer Road Burlington, Ontario		Canada
1599-19	5824 Burbank Road S.E. Calgary, Alberta T2H1Z3		Canada
1599-16	8 Ralston Avenue Dartmouth, Nova Scotia		Canada
1599-10	2259 Champlain Street Dieppe, New Brunswick		Canada
1599-15	14335 121 A Avenue Edmonton, Alberta T5L2T1		Canada
1599-02	131 Consortium Court, #701 London, Ontario		Canada
1599-04	131 Consortium Court, #705 London, Ontario		Canada
1598-10	2001 Drew Road Mississauga, Ontario L5S 1S4		Canada
1598-41	2301 Dixie Road Mississauga, Ontario L5S 1S4		Canada
1599-27	46 Grenfell Crescent Nepean, Ontario		Canada
1599-21	490 Waterloo Court Oshawa, Ontario		Canada

1599-18	2750 Chemin Ste. Foy Ste. Foy, Quebec G1V1V6	Canada
1599-05	1555 J. McDonald Street Regina, Saskatchewan	Canada
1599-20	2060 Van Dyke Place Richmond, British Columbia V6V1X9	Canada
1599-13	824 43rd Street East Saskatoon, Saskatchewan	Canada
1599-11	775 St. Jean Baptiste Les Saules, Quebec	Canada
1599-17	43 Sagona Avenue St. Johns, Mt. Pearl Newfoundland	Canada
1599-12	4935 Levy Street St. Laurent, Quebec	Canada
1599-08	1820 Highway 6 Vernon, British Columbia	Canada
1599-07	108-2740 Bridge Street Victoria, British Columbia	Canada
1599-14	540 Marjorie Street Winnipeg, Manitoba R3H089	Canada
1599-01	380-550 Century Street Winnipeg, Manitoba	Canada

AUTOMOTIVE MINIATURE LIGHTING
LEASED PROPERTY

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
Building #2 0562-02	2025 First Street Seymour 47274	IN	USA
Building #3 0562-03	1104 "A" Avenue West Seymour 47274	IN	USA

PRECISION MATERIALS GROUP
CHEMICAL AND METALLURGICAL
LEASED PROPERTY

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
0571-03	100 Constitution Plaza Suite #1532 Hartford 06103	CT	USA
Warehouse 0553-02	Exeter Corporate Park Exeter 03838	NH	USA

Syltron, Inc. (Coil) 0544-03	P.O. Box 599 Luquillo 00773	PR	USA
Syltron, Inc. (Wire) 0578-01	P.O. Box 1020 Luquillo 00773	PR	USA

PRECISION MATERIALS GROUP
ELECTRONIC CONTROLS AND MATERIALS DIVISION
LEASED PROPERTY

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
GTE Products Corp. Metal Stamp GP 0521-01	18 Park Road Watertown 06795	CT	USA
Sales Office 0504-05	1025 Front Street Binghamton 13905	NY	USA
Sales Office 0504-04	875 Walnut Street Cary 27511	NC	USA
Sales Office 0504-03	425 West Schrock Road Westerville 43081	OH	USA
Agway Property 0506-02	Lexington Avenue and Parker Streets Warren 16365	PA	USA
GTE Products Corp. 0524-01	Road 909 P.O. Box 8790 Humacao 00792	PR	USA
Circuit Assem Op/ Fiber Optic Op 0512-01	2333 Reach Road Williamsport 17701	PA	USA

PRECISION MATERIALS GROUP
GLASS OPERATIONS
LEASED PROPERTY

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
Commerce Way 0534-01	135 Commerce Way Portsmouth 03801	NH	USA
Parking Lot 0531-02	1193 Broad Street Central Falls 02863	RI	USA

**EPG HEADQUARTERS
LEASED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
1302-03	10 Hutchinson Drive Danvers 01923	MA	USA
Stockroom/Print Shop 1328-02	5 Hutchinson Drive Danvers 01923	MA	USA
Mitchell Road Warehouse 1353-02	26 Mitchell Road Ipswich 01938	MA	USA
Nashua - EDO 1352-01	5 State Street Nashua 03060	NH	USA

**SYLVANIA LIGHTING DIVISION
SYLVANIA LIGHTING MANUFACTURING
OWNED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
GTE Products Corp. 1323-01	416 East Washington Street Winchester 40391	KY	USA
Versailles Lamp Plant 1321-01	900 Tyrone Pike Versailles 40383	KY	USA
Danvers Fluorescent Plant 1328-01	75 Sylvan Street Danvers 01923	MA	USA
GTE Products Corp. 1338-01	655 South Willow Street Manchester 03103	NH	USA
GTE Products Corp. 1340-01	835 Washington Road St. Marys 15857	PA	USA
Sylvania Componentes Electronicos SA 1323-02	Parque Industrial A.J. Bermudez-Appo Postal No. 1717 Juarez, Chihuahua 77917		Mexico

**SYLVANIA LIGHTING DIVISION
SYLVANIA LIGHTING SERVICES
OWNED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
1475-01	1521 West Broadway Anaheim 92802	CA	USA

**SYLVANIA LIGHTING DIVISION
CUSTOMER SUPPORT
OWNED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
1775-02	1651 South Archibald Avenue Ontario 91761	CA	USA
1741-01	5169 Pelican Drive Atlanta 30349	GA	USA
1750-01	800 Devon Avenue Elk Grove Village 60007	IL	USA
National Customer Support Center 1774-02	North Union Street Westfield 46074	IN	USA
1775-01	105 Andover Street Danvers 01923	MA	USA
1773-01	3950 Venture Court Columbus 43228	OH	USA
1772-01	7485 Industrial Boulevard Allentown 18106	PA	USA
1770-01	2040 McKenzie Drive Carrollton 75011-5018	TX	USA

**AUTOMOTIVE AND MINIATURE LIGHTING
OWNED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
Building #1 0562-01	1231 "A" Avenue North Seymour 47274	IN	USA
Building #4 0562-04	700 "B" Avenue East Seymour 47274	IN	USA
GTE Sylvania 0561-01	275 West Main Street Hillsboro 03244	NH	USA

**LIGHTING INTERNATIONAL
OWNED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
Sylcan 1604-01	8501 Jarry Street East Montreal, Ville D'Anjou Quebec H1J 1H7		Canada
Sylcan 1602-01	54 Atomic Avenue Toronto, Ontario M8Z 5L4		Canada
Sylcan 1605-01	1 Rue Sylvan Drummondville, Quebec J2B 6V8		Canada

**PRECISION MATERIALS GROUP
CHEMICAL AND METALLURGICAL
OWNED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
GTE Chemical and Metal Products 0575-01	178 Bridge Street Naugatuck 06770	CT	USA
GTE Chemical and Metal Products 0573-01	1535 Island Ford Road Madisonville 42431	KY	USA
0554-01	Estes Street Dock A Ipswich 01938	MA	USA
Agway Warehouse 0544-02	U.S. Route 1 & Maine 202, Waldoboro 04572	ME	USA
Waldoboro Coil Operations 0544-01	405 Friendship Street Waldoboro 04572	ME	USA
GTE Emissive Products 0553-01	Portsmouth Avenue Exeter 03833	NH	USA
GTE Chemical and Metal Products 0571-01	4 Hawes Street Towanda 18884	PA	USA

**PRECISION MATERIALS GROUP
ELECTRONIC CONTROLS AND MATERIALS DIVISION
OWNED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
Bangor Weld 0516-01	200 Sylvan Road Bangor 04401	ME	USA
GTE Products Corp. 0510-01	1128 Roosevelt Avenue York 17404	PA	USA
Warren Complex Connector Products 0506-01	816-20 Lexington Ave Warren 16365	PA	USA
Warren Complex Metals Products Op 0508-01	825 Lexington Avenue Warren 16365	PA	USA
Sylvania Manufacturing 0523-01	Rural Road 189 Km. 9 Gurabo 00658	PR	USA

PRECISION MATERIALS GROUP
GLASS OPERATIONS
OWNED PROPERTY

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
GTE Products Versailles Glass 0533-01	1000 Tyrone Pike Versailles 40383	KY	USA
GTE Products Corp. 0532-01	1 Jackson Street Wellsboro 16901	PA	USA
Central Falls Glass Operation 0531-01	1193 Broad Street Central Falls 02863	RI	USA

EPG HEADQUARTERS
OWNED PROPERTY

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
EPG Headquarters 1302-01	100 Endicott Street Danvers 01923	MA	USA
Ipswich EDO 1353-01	One Estes Street Dock 8 Ipswich 01938	MA	USA
GTE Products Corp. 1362-01	60 Boston Street Salem 01970	MA	USA

SCHEDULE 2.12 TO
 NATIONAL ENVIRONMENTAL
 AGREEMENT

List of Insurance Policies

Policy Number	Coverage From	Period To	Specific Insuring Company	Coverage Type
22M-552400-0	05/01/62	05/01/63	American Motorists Insurance Company	Primary
32M-552400-0	05/01/63	05/01/64	American Motorists Insurance Company	Primary
42M-552400-0	05/01/64	05/01/65	American Motorists Insurance Company	Primary
52M-552400-0	05/01/65	05/01/66	American Motorists Insurance Company	Primary
62M-552400-0	05/01/66	05/01/67	American Motorists Insurance Company	Primary
72M-552400-0	05/01/67	05/01/68	American Motorists Insurance Company	Primary
82M-552400-0	05/01/68	05/01/69	American Motorists Insurance Company	Primary
92M-552400-0	05/01/69	05/01/70	American Motorists Insurance Company	Primary
02M-552400-0	05/01/70	05/22/71	American Motorists Insurance Company	Primary
12M-552400-0	05/22/71	05/01/72	American Motorists Insurance Company	Primary
22M-552400-0	05/01/72	05/01/73	American Motorists Insurance Company	Primary
32M-552400-0	05/01/73	05/01/74	American Motorists Insurance Company	Primary
42M-552400-0	05/01/74	05/01/75	American Motorists Insurance Company	Primary
52M-552400-0	05/01/75	10/01/76	American Motorists Insurance Company	Primary
62M-578330-0	10/01/76	05/01/77	American Motorists Insurance Company	Primary
72M-578330-0	05/01/77	05/01/78	American Motorists Insurance Company	Primary
82M-578330-0	05/01/78	05/01/79	American Motorists Insurance Company	Primary
92M-578330-0	05/01/79	05/01/80	American Motorists Insurance Company	Primary
02M-578330-0	05/01/80	07/01/81	American Motorists Insurance Company	Primary
12M-578330-0	07/01/81	07/01/82	American Motorists Insurance Company	Primary
22M-578330-0	07/01/82	07/01/83	American Motorists Insurance Company	Primary
32M-578330-0	07/01/83	07/01/84	American Motorists Insurance Company	Primary
32M-578330-0	07/01/84	07/01/85	American Motorists Insurance Company	Primary
32M-578330-0	07/01/85	07/01/86	American Motorists Insurance Company	Primary
3YM-578330-0	07/01/86	07/01/87	American Motorists Insurance Company	Primary
3YM-578330-0	07/01/87	07/01/88	American Motorists Insurance Company	Primary
3YM-578330-0	07/01/88	07/01/89	American Motorists Insurance Company	Primary
3YL-945140-0	07/01/89	07/01/90	Lumbermens Mutual Casualty Company	Primary
3YL-945140-0	07/01/90	07/01/91	Lumbermens Mutual Casualty Company	Primary
3YL-945140-1	07/01/91	07/01/92	Lumbermens Mutual Casualty Company	Primary

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Execution

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Policy Number	Coverage From	Period To	Specific Insuring Company	Coverage Type
3XL-945140-1	07/01/92	07/01/93	Lumbermens Mutual Casualty Company	Primary
82N-552401-0	05/01/68	05/01/69	American Motorists Insurance Company	Excess
92N-552401-0	05/01/69	05/01/70	American Motorists Insurance Company	Excess
02N-552401-0	05/01/70	05/01/71	American Motorists Insurance Company	Excess
12N-552401-0	05/01/71	05/01/72	American Motorists Insurance Company	Excess
22N-552401-0	05/01/72	05/01/73	American Motorists Insurance Company	Excess
32N-552401-0	05/01/73	05/01/74	American Motorists Insurance Company	Excess
42N-552401-0	05/01/74	05/01/75	American Motorists Insurance Company	Excess
52N-552401-0	05/01/75	10/01/76	American Motorists Insurance Company	Excess

1. Member companies of Kemper National Insurance Companies

NY1-151025.V1

Execution

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**SCHEDULE 1.1 TO
 NATIONAL ENVIRONMENTAL
 AGREEMENT**

ACQUIRED FACILITIES

**SYLVANIA LIGHTING DIVISION
 SYLVANIA LIGHTING MANUFACTURING
 LEASED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
Sylvania Componentes Electronicos SA 1323-03	Parque Industrial A.J. Bermudez- Apdo Juarez, Chihuahua 77917		Mexico
Sylvania Lighting Co. 1447-01	Road #195, P.O. Box 487 Puerto Real, Fajardo 00740	PR	USA
Potter Pak 1340-02	RD#1, Box 252 Roulette	PA	USA

**SYLVANIA LIGHTING DIVISION
 SYLVANIA LIGHTING SERVICES
 LEASED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
1471-01	3404-3408 West Flower Phoenix 85017	AZ	USA
1474-01	30675 Huntwood Avenue Hayward 94544	CA	USA
1472-01	10537 Glen Oaks Boulevard Unit C Pacoina	CA	USA
1473-01	2 Light Sky Court Suite 1 Sacramento 95828	CA	USA
1476-01	7868 Convoy Court San Diego 92111	CA	USA
1485-01	4930 Fox Street Unit A Denver 80216	CO	USA
1455-01	51 Giles Avenue New Haven 06473	CT	USA
1492-01	2912 NW 28th Street Ft. Lauderdale 33341	FL	USA

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
1452-01	207 Kelsey Lane Suite A Tampa 33619	FL	USA
1488-01	3070 Roosevelt Highway Atlanta 30349	GA	USA
1498-01	96-1185 Waihona Street Pearl City 96797	HI	USA
1466-01	1201 Lunt Avenue Elk Grove Village 60007	IL	USA
1461-01	221 Harbor Circle New Orleans 70126	LA	USA
1451-01	56 Holten Street Woburn 01801	MA	USA
1459-01	1500 Caton Center Drive Baltimore 21227	MD	USA
1483-01	13150 Wayne Road Livonia 48150	MI	USA
1496-01	4320 West Papin St. Louis 63110	MO	USA
1489-01	572 Griffith Road Charlotte 28210	NC	USA
1481-01	7 Jules Lane New Brunswick 08901	NJ	USA
1480-01	3428 Hauck Road Cincinnati 45241	OH	USA
1487-01	10950 S.W. Fifth Street Beaverton 97005	OR	USA
1494-01	1012 Corporate Drive Suite F Export 15632	PA	USA
1495-01	1985 Thomas Road Memphis 38134	TN	USA
1462-01	2467 Fabens Dallas 75229	TX	USA
1465-01	428 Garden Oaks Boulevard Houston 77018	TX	USA
1484-01	6707 South 216th Street Seattle 98032	WA	USA
1490-01	3725 C North 126th Street Milwaukee 53005	WI	USA

**SYLVANIA LIGHTING DIVISION
MARKETING
LEASED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
Koll Center 1445-07	500 North State College Blvd Suite #1400 Orange 92668	CA	USA
McCandless Towers 1445-09	3945 Freedom Circle Suite #230 Santa Clara 95054	CA	USA
One DTC 1445-02	5251 DTC Parkway Denver 80111	CO	USA
High Point Business Center 1445-15	9417 Princess Palm Drive Suite #715 Tampa 33619	FL	USA
Two Lakeway Center 1445-14	3850 North Causeway Blvd Metairie 70002	LA	USA
Commerce Park South 1445-06	3200 Greenfield Dearborn 48120	MI	USA
Interchange West 1445-16	435 Ford Road #1025 Minneapolis 55426	MN	USA
Crownpoint Corporate Center 1445-12	2201 Coronation Boulevard Suite 155 Charlotte 28227	NC	USA
University Corporate Center 1445-04	77 Broadway Buffalo 14226	NY	USA
One Ashview Place Ltd. 1445-01	10560 Ashview Place Cincinnati 45242	OH	USA
The Spectrum 1445-05	6060 Rockside Woods Blvd Independence 44131	OH	USA
Building 610 1445-13	Freedom Business Center King of Prussia 19406	PA	USA
Unisys Towers 1445-03	13430 Northwest Freeway Suite #675 Houston 77040	TX	USA
One Hyatt Plaza 1445-11	12701 Fairlakes Circle Fairfax 22033	VA	USA

**SYLVANIA LIGHTING DIVISION
CUSTOMER SUPPORT
LEASED PROPERTY**

<u>Facility Name and/or Code</u>	<u>Address</u>	<u>State</u>	<u>Country</u>
National Customer Support Center 1774-01	North Union Street Westfield 46074	IN	USA

SCHEDULE 3.2 TO
NAL ENVIRONMENTAL
AGREEMENT

List of Litigation

None.

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Execution

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State of New York }
Department of State } ss:

I hereby certify that the annexed copy has been compared with the original document filed by the Department of State and that the same is a true copy of said original.

Witness my hand and seal of the Department of State on **NOVEMBER 27, 2002**



A handwritten signature in black ink, appearing to read "R. A. S.", is written over the printed title "Secretary of State".

Secretary of State

CERTIFICATE OF INCORPORATION
OF
GENERAL TELEPHONE CORPORATION
PURSUANT TO ARTICLE TWO OF THE
STOCK CORPORATION LAW.

We, the undersigned, desiring to form a corporation pursuant to Article Two of the Stock Corporation Law of the State of New York, do hereby make, subscribe and acknowledge this Certificate for that purpose, hereby certifying as follows:

Section 1. The name of the proposed Corporation is GENERAL TELEPHONE CORPORATION (hereinafter called "this Corporation").

Section 2. All references in this Certificate to "Sections" and "Paragraphs" are to the corresponding Sections and paragraphs of this Certificate; and the words "herein", "hereof", "hereby", "hereunder" and other equivalent words refer to this Certificate and not to any particular subdivision hereof.

In this Certificate, for all purposes hereof, unless there be something in the subject or context inconsistent therewith,

(a) The term "security" means any share of stock, bond, debenture, note, evidence of indebtedness, voting trust certificate, transferable share however evidenced, and, in general, any instrument commonly known as a "security", and any certificate of interest or participation in, scrip or temporary or interim certificate for, receipt or certificate of deposit for, and any warrant, right or option to subscribe for, purchase or otherwise acquire, any of the foregoing; and

11789-58-2

(b) The term "corporation" means any corporation, association, joint stock company and similar organization.

Section 3. The purposes for which this Corporation is to be formed are as follows:

A. To acquire and hold securities of telephone and/or other communication corporations and corporations owning securities of telephone and/or other communication corporations.

B. To subscribe for, underwrite, invest in, purchase or otherwise acquire, own, hold, sell, assign, deal in, exchange, transfer, mortgage, pledge or otherwise dispose of, any securities created or issued by any public, municipal, quasi-public or private corporation of any kind wherever organized (including, without limiting the generality of the foregoing, the corporations described in the foregoing Paragraph A), or by any national, state or local government or by any partnership or individual, and to lend money upon the security of, and acquire and hold as pledgee or mortgagee or otherwise, any such securities, and to issue, in exchange for any such securities, its own securities; while the owner or holder of any such securities, or any interest therein, to possess and to exercise in respect thereof all the rights, powers and privileges incident to such ownership or interest; to guarantee the payment of dividends on any shares of the capital stock of any corporation in which this Corporation may at any time have an interest, and to become surety in respect of, endorse or guarantee in any lawful manner the payment of the principal of or interest on any bonds, debentures, notes, or other evidences of indebtedness created, issued or incurred by any corporation, partnership or individual, any of whose securities are at any time held by or for this Corporation or in which this Corporation may at

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any time have an interest, and to become surety for or guarantee in any lawful manner the carrying out and performance of any and all contracts, leases and obligations of every kind of any such corporation, partnership or individual; to lend money to and/or otherwise aid in any lawful manner any corporation, partnership or individual whose securities may at any time be held by or for this Corporation or in which this Corporation may at any time have an interest, and to do any acts and things permitted by law and designed to protect, preserve, improve or enhance the value of any such securities or interest.

C. To improve, manage, develop, sell, assign, transfer, lease, mortgage, pledge or otherwise dispose of or deal with all or any part of the property of this Corporation, and from time to time to vary any investment or employment of funds of this Corporation.

D. To investigate and report with respect to, and to undertake, carry on, aid, assist or participate in the reorganization or liquidation of any corporation in which this Corporation may at any time have an interest, and for that purpose and to the extent then permitted to corporations organized under the Stock Corporation Law of the State of New York, to take charge of the properties, manage the affairs and conduct the business of any such corporation; and, in connection with the foregoing, to purchase or otherwise acquire, hold, own, develop, improve, lease, exchange, sell, mortgage, convey or otherwise dispose of and deal in and with lands and leaseholds and any interests and rights in real or personal property wheresoever situated, and also any franchises, rights, licenses or privileges necessary or appropriate for any of the purposes in this *Paragraph D* expressed.

E. To acquire the good-will, rights, property, business and franchises, of any person, partnership or cor-

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poration whatsoever, now or hereafter engaged in any business which this Corporation may lawfully conduct; to pay therefor in cash or in property or in securities of this Corporation or otherwise, in the manner provided by law; to hold, utilize, enjoy, and in any manner dispose of, the whole or any part of the rights and property so acquired; to assume in connection therewith any liabilities of any such person, partnership or corporation; and to conduct in any lawful manner the whole or any part of the business thus acquired.

F. To borrow money for any of the purposes of this Corporation, and to issue its bonds, debentures, notes or other obligations therefor, and to secure the same by pledge or mortgage of the whole or any part of the property of this Corporation either real or personal, or to issue its bonds, debentures, notes or other obligations without any such security; and to sell, pledge, hypothecate or otherwise dispose of any or all such bonds, debentures, notes and other obligations in such manner and upon such terms and at such prices as the Board of Directors shall determine.

G. To organize, or cause to be organized, under the laws of any state, district, territory, province, country or nation a corporation or corporations for the purpose of accomplishing any or all of the purposes for which this Corporation is organized, and to dissolve, wind up, liquidate, merge or consolidate any such corporation or corporations, or to cause the same to be dissolved, wound up, liquidated, merged or consolidated.

H. To have one or more offices, and to carry on and conduct any or all of its operations and business, and, without restriction or limit as to amount, to purchase, lease or otherwise acquire, hold, own, mortgage, sell, convey, lease or otherwise dispose of, real and personal property of every class and description, in any part of the world.

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1. To carry on any other lawful business whatsoever incidental to the accomplishment of the purposes hereinbefore set forth; to do any and all such things as are necessary or convenient to the attainment of the purposes of this Corporation, or any of them, to the same extent as a natural person might lawfully do in any part of the world, in so far as such acts are permitted to be done by a corporation organized under the Stock Corporation Law of the State of New York.

The foregoing Paragraphs of this Section 3 shall be construed as defining both the purposes and the powers of this Corporation, but the foregoing enumeration of specific purposes and powers shall not be held to limit or restrict in any manner the powers of this Corporation, but is in furtherance of, and in addition to, the general powers conferred upon corporations organized under the Stock Corporation Law of the State of New York.

It is intended that none of the purposes and powers specified in the several Paragraphs of this Section 3 shall, except as herein otherwise expressly provided, in anywise be limited or restricted by reference to or inference from the terms of any other of said Paragraphs, and that each of the purposes and powers specified in this Section 3 shall be regarded as independent purposes and powers.

This Corporation shall not have the power to construct, maintain or operate any public utility.

Section 4. The total number of shares of stock that may be issued by this Corporation is 1,200,000. The number of shares which are to have a par value is 1,100,000 and the par value of each of such shares is to be \$20. The number of shares which are to be without par value is 100,000. The capital of this Corporation shall be at least equal to the sum of the aggregate par value of all issued shares having par value, plus the aggregate amount of consideration received by this Cor-

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poration for the issuance of shares without par value, plus such amounts as, from time to time, by resolution of the Board of Directors, may be transferred thereto.

The shares of stock of this Corporation shall be divided into two classes, consisting of 100,000 shares of \$3 Convertible Preferred Stock without par value (hereinafter called "Preferred Stock") and 1,100,000 shares of Common Stock of the par value of \$20 each (hereinafter called "Common Stock"). All of the designations, preferences, privileges and voting powers of the shares of each class and the restrictions or qualifications thereof are contained in Sections 5 to 16 inclusive.

Section 5. The holders of the Preferred Stock shall be entitled to receive dividends, payable quarterly, in lawful money of the United States of America, when and as declared by the Board of Directors, at the rate of, but not exceeding, \$3 per share per annum, before any dividends shall be declared or paid upon or set apart for the Common Stock; and such dividends on the Preferred Stock shall be cumulative from such date or dates as shall be fixed from time to time by the Board of Directors at or before the issuance of the Preferred Stock or any portion thereof. The holders of the Preferred Stock shall be entitled to no other or further dividends, except as provided in Section 9. Accumulated dividends shall bear no interest.

Authority is hereby expressly vested in the Board of Directors to authorize the issuance of all or any portion of the Preferred Stock from time to time and to fix by the resolution or resolutions providing for such issuance the date or dates from which dividends on the Preferred Stock issued pursuant thereto shall be cumulative.

Section 6. Subject to the prior rights of the holders of the Preferred Stock as set forth in Section 5, and

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after full cumulative dividends as aforesaid upon the Preferred Stock shall have been paid for all past dividend periods as then established or upon the basis whereof Preferred Stock dividends are usually paid and after or concurrently with declaring and making payment of or provision for full dividends on the Preferred Stock for the then current dividend period, then, and not otherwise, the Board of Directors may declare, and cause to be paid, dividends to the holders of the Common Stock.

Section 7. The Board of Directors shall have the power to declare and pay dividends as aforesaid only out of surplus or other funds, if any, at the time legally available for dividends, *provided, however,* that this Corporation shall not declare or pay any dividend upon, or purchase or redeem, any class of its capital stock junior to the Preferred Stock, if the capital of this Corporation is at the time, or by such act will be reduced, below the aggregate amount which the holders of the then issued and outstanding Preferred Stock would be entitled to receive out of the assets of this Corporation under the provisions of Section 9.

Section 8. Any holder of Preferred Stock may, at any time and from time to time (subject to the provisions of Paragraphs C and F of this Section 8), convert all or any of the shares of Preferred Stock held by him into shares of Common Stock of this Corporation at the rate hereinafter specified, by surrender to this Corporation of the certificate or certificates representing the Preferred Stock so to be converted, which, if this Corporation shall so require, shall be properly endorsed or assigned for transfer; and, upon such surrender, such holder shall be entitled to receive therefor one or more certificates for the shares of Common Stock into which, at said rate of conversion, said Preferred Stock is convertible; *provided, however,* that this Corporation shall not be required

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upon any such conversion to issue certificates representing any fraction or fractions of a share of Common Stock, but may issue in lieu thereof one or more non-dividend bearing and non-voting certificates in such form or forms as shall be approved by the Board of Directors, each representing a fractional right to receive a certificate representing one share of Common Stock when presented with other like certificates representing other fractional rights in the aggregate equal to at least one share of Common Stock. Such certificates may contain such terms and conditions as shall be fixed by the Board of Directors, and may become void and of no effect after a reasonable period, not less than 3 years from the date of issuance, to be determined by the Board of Directors and specified in such certificates.

A. The rate for said conversion shall be 1 share of Common Stock for 1 share of Preferred Stock; *provided, however*, that if at any time, or from time to time, while any shares of the Preferred Stock shall remain outstanding, this Corporation shall change as a whole, by subdivision or consolidation or otherwise, the number of shares of Common Stock then outstanding into a different number of shares of stock with or without par value (hereinafter in this *Paragraph A* called "new stock"), any holder of Preferred Stock then outstanding, upon conversion thereof, shall be entitled to receive, in lieu of the shares of Common Stock to which he would have become entitled upon conversion but for such change, the shares of new stock into which such shares of Common Stock would have been changed if the conversion of such Preferred Stock had been effected prior to the first change into new stock; *provided further, however*, that no such change into new stock shall be deemed to result from the issue of stock as a stock dividend upon the Common Stock (or, if one or more such changes into new stock shall theretofore have occurred, upon any such new stock) if the "dollar amount" of stock so

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issued as such stock dividend does not exceed, and is charged against, the aggregate amount of earned surplus of this Corporation at the time legally available for dividends. For the purpose of this Paragraph A, the "dollar amount" of stock so issued as such stock dividend shall be determined by multiplying the number of shares of stock so issued as a stock dividend by \$50, except that if one or more such changes into new stock shall theretofore have occurred so as to change the conversion rate as aforesaid, the "dollar amount" of the new stock issued as a stock dividend shall be determined by multiplying the number of shares so issued by a sum in money which shall be the quotient obtained by dividing \$50 by the number of shares of new stock into which each share of Preferred Stock is at the time convertible.

B. Upon any such conversion, a cash adjustment in respect of dividends upon the Preferred Stock converted shall be made in accordance with the following provisions:

(1) In case any such conversion shall occur on any date other than a regular dividend payment date for the Preferred Stock as then established or upon the basis whereof Preferred Stock dividends are usually paid, and on or before the record date for the dividend for the then current dividend period, this Corporation shall pay to the converting stockholder, out of any funds at the time legally available for dividends, an amount in cash equal to the dividend accrued on the shares of Preferred Stock so surrendered from the beginning of the then current dividend period to the date of conversion;

(2) In case any such conversion shall occur on any date after the record date, but before the payment date of a declared dividend on the Preferred Stock, the converting stockholder shall pay to this Corporation an amount in cash equal to the dividend on the surrendered shares of Preferred Stock

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assumed to accrue from the date of conversion to such dividend payment date;

(3) In case any such conversion shall occur on the payment date of a declared dividend on the Preferred Stock, no cash adjustment shall be made in respect of any dividend on the Preferred Stock.

C. Preferred Stock shall be deemed to have been converted and the person converting the same to have become a holder of record of Common Stock, for the purpose of receiving dividends and for all other purposes whatsoever, as of the date when the certificate or certificates for such Preferred Stock are surrendered to this Corporation as aforesaid, or, if the books for the transfer of either class of stock shall at the time be closed, then as of the next date when the books for the transfer of both classes of stock shall be open; *provided, however*, that the right of conversion shall not in any case be suspended by closing said transfer books for a period longer than 30 days nor at any time during the 30-day period beginning with the fortieth day and ending with the eleventh day next preceding the date fixed as provided in Section 10 for the redemption of Preferred Stock.

D. In case this Corporation shall, while any shares of the Preferred Stock shall remain outstanding, consolidate or merge with any other corporation, proper provision shall be made that, on the terms and in the manner provided in this Section 9, the holder of any Preferred Stock may thereafter convert the same into the same kind and amount of securities as may be issuable by the terms of such consolidation or merger with respect to the number of shares of Common Stock of this Corporation into which such Preferred Stock is convertible at the time of such consolidation or merger. After any such consolidation or merger, the right of conversion shall be to convert the Preferred Stock into such securities as the same may from time to time be constituted

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and without any right to further adjustments of the rate of conversion.

E. A number of shares of Common Stock sufficient to provide for the conversion of all outstanding Preferred Stock upon the basis hereinbefore set forth, shall at all times be reserved for the exercise of the conversion rights of the Preferred Stock.

F. In case any of the Preferred Stock shall be called for redemption, the right to convert such Preferred Stock into Common Stock shall expire at the close of business on the eleventh day next preceding the redemption date.

G. Shares of Common Stock issued by this Corporation from time to time upon the conversion of any Preferred Stock, as herein provided, shall be deemed fully paid stock and not liable to any further call or assessment thereon.

H. All shares of Preferred Stock so converted shall be cancelled and retired.

Section 9. In the event of any liquidation or dissolution of this Corporation, whether voluntary or involuntary, the holders of the Preferred Stock shall be entitled to receive out of the assets of this Corporation (whether from capital or surplus or both) \$50 per share in lawful money of the United States of America, and in addition thereto, an amount equal to all unpaid cumulative dividends thereon accrued to the date when such payment shall be made available to the holders of the Preferred Stock, before any distribution of assets shall be made to the holders of Common Stock, and the holders of the Common Stock shall be entitled, to the exclusion of the holders of Preferred Stock, to share ratably in any assets of this Corporation remaining after making or providing for such payment to the holders of

4789-85-12.

the Preferred Stock. If upon such liquidation or dissolution, the net assets of this Corporation shall be insufficient to permit the payment in full to the holders of the Preferred Stock of the amounts distributable to them as aforesaid, then the entire net assets of this Corporation shall be distributed ratably among the holders of the Preferred Stock.

Section 10. After full cumulative dividends as aforesaid upon the Preferred Stock shall have been paid for all past dividend periods as then established or upon the basis whereof Preferred Stock dividends are usually declared, and after or concurrently with declaring and making payment of or provision for full dividends on the Preferred Stock for the then current quarterly dividend period and for all future quarterly dividend periods up to and including the dividend payable on the redemption date, the Preferred Stock may be redeemed, in whole or in part (by lot or *pro rata*), on any dividend payment date, at the option of the Board of Directors, expressed by resolution, upon at least 40 days' notice to the holders of record thereof, given in such manner as may be prescribed by the By-Laws or by resolution of the Board of Directors; *provided, however*, that the accidental failure to give any such notice to one or more such holders shall not affect the validity of such redemption as to the other holders. The redemption price for each share of the Preferred Stock so redeemed shall be \$50 in lawful money of the United States of America, plus an amount equal to all unpaid cumulative dividends accrued thereon to the date of redemption. Notice having been given as aforesaid, from and after the date fixed in any such notice as the date of redemption (unless default shall be made by this Corporation in providing money for the payment of the redemption price), all dividends on the Preferred Stock so called for redemption shall cease to accrue and all

4789-98-13

rights of the holders thereof as stockholders of this Corporation, except the right to receive the redemption price, shall cease and determine; *provided further, however*, that this Corporation may include in such notice a statement that the money required for the payment of the redemption price will be deposited on a specified date, prior to the date of redemption, with a specified bank or trust company (which shall have an office in New York, N. Y. or Boston, Mass., and shall have a capital and surplus of at least \$5,000,000), in trust for the benefit of the holders of the Preferred Stock so called for redemption, and notice having been given as aforesaid, from and after such deposit all rights of the holders of the Preferred Stock so called for redemption as stockholders of this Corporation (except only the right to convert their Preferred Stock into Common Stock in accordance with the provisions of *Section 8*) shall cease and determine, and the holders of such Preferred Stock shall look for payment of the redemption price only to the funds so deposited, and in no event to this Corporation. The holders of such Preferred Stock shall not be entitled to any interest allowed by such depository on funds so deposited, but any such interest shall be paid to this Corporation. In case any Preferred Stock shall be converted into Common Stock after the deposit as aforesaid of money for the redemption price thereof, the money so deposited in respect of such Preferred Stock shall, upon such conversion, be repaid by the depository to this Corporation. All shares of Preferred Stock redeemed under the provisions of this *Section 10* shall be cancelled and retired.

Section 11. Each stockholder of record shall be entitled to one vote for every share of Preferred Stock and to one vote for every share of Common Stock standing in his name on the stock books of this Corporation on the date for the determination of stockholders entitled to vote.

4789-85-14

Section 12. Without the affirmative vote or written consent of the holders of at least 60% in amount of the outstanding Common Stock, this Corporation shall not

(a) Issue, incur or guarantee any obligation or indebtedness for capital purposes or capital expenditures, in an amount or amounts exceeding an aggregate of \$500,000 at any one time outstanding;

(b) Mortgage or pledge any of its property, except by way of purchase money liens or pledge of current assets for current loans for other than capital purposes or capital expenditures;

(c) Dispose (by sale, consolidation, merger or otherwise) of the property and business of this Corporation as a whole or substantially as a whole;

(d) Authorize the creation or issuance of any new class of stock ranking as to dividends or assets prior to the Common Stock, or increase the authorized number of shares of Preferred Stock; or

(e) Amend, alter, change or repeal any provision of this Section 12.

Section 13. The shares of stock without par value of any class, whether now or hereafter authorized, may be issued by this Corporation from time to time for such consideration as may be fixed from time to time by the Board of Directors; and any and all shares without par value so issued, the consideration for which so fixed has been paid or delivered, shall be fully paid stock and shall not be liable to any further call or assessment thereon, and the holders of such shares shall not be liable for any further payments in respect of such shares.

Section 14. No holder of stock of any class of this Corporation shall have any right, as such holder, to purchase or subscribe for any stock of any class or any obligations convertible into, or any right or option to purchase, stock of any class which this Corporation may

4789-98-15

at any time issue or sell, but any and all such stock, obligations, rights and/or options may be issued and disposed of by the Board of Directors to such persons, firms and corporations, and for such lawful consideration and on such terms as the Board of Directors, in its discretion, may determine, without first offering the same or any thereof to the stockholders or any class of stockholders.

Section 15. This Corporation is hereby expressly authorized and empowered, from time to time, to create and issue, whether or not in connection with the issue and sale of any shares of stock or other securities of this Corporation, rights or options entitling the holders or owners thereof to purchase or acquire from this Corporation any shares of its capital stock of any class or classes, such rights or options to be evidenced by or in such warrants or other instruments as shall be approved by the Board of Directors. The terms upon which, the time or times, which may be limited or unlimited in duration, at or within which, and the price or prices at which any such shares may be purchased or acquired from this Corporation upon the exercise of any such rights or options, shall be such as shall be fixed in a resolution adopted, or in an agreement authorized, by the Board of Directors, providing for the creation and issue of such rights or options, and set forth or incorporated by reference in the warrants or other instruments evidencing such rights or options, and as shall be permitted by law. The Board of Directors is hereby authorized and empowered to authorize the creation and issue of any such rights or options and any such warrants or other instruments from time to time, for such lawful consideration as the Board of Directors may determine. Any and all shares of stock which may be purchased and/or issued upon the exercise of any such rights or options, shall be deemed fully paid stock and not liable to any further call or assessment thereon, or partly paid and liable to

4789 - 85-16

further call or assessment, as the terms of the warrant or other instruments evidencing such rights or options shall provide. Except as otherwise provided by law, the Board of Directors shall have full power and discretion to prescribe and regulate from time to time the procedure to be followed in, and all other matters concerning, the creation, issue and exercise of any such rights and options and such warrants or other instruments, and the setting aside of stock for the purpose thereof, and the issuance of such stock upon the exercise thereof.

Section 16. Stock of this Corporation owned by it shall not be deemed to be "outstanding" for the purpose of Section 7 or for the purpose of computing the amount of stock of any class, in respect of which any request, consent, vote or notice provided for herein may be given. The word "amount", when herein used in relation to the amount of stock (of any class) outstanding, shall mean the number of shares of such stock.

Section 17. The office of this Corporation is to be located in the City and County of New York. The address to which the Secretary of State shall mail a copy of process in any action or proceeding against this Corporation which may be served upon him is 80 Broad Street, New York, N. Y.

Section 18. The duration of this Corporation shall be perpetual.

Section 19. The number of directors of this Corporation which shall constitute the whole Board of Directors shall be such as from time to time shall be fixed by, or in the manner provided in, the By-Laws, and such number may be altered from time to time in the manner provided in the By-Laws, but such number shall in no case be less than 3 nor more than 15.

4789-F5-17

Section 20. The names and post office addresses of the directors to serve until the first annual meeting of the stockholders are as follows:

<i>Names</i>	<i>Post Office Addresses</i>
W. Rice Brewster	15 Broad St., New York, N. Y.
Albert E. Nuelsen	15 Broad St., New York, N. Y.
Charles D. Kyle	15 Broad St., New York, N. Y.

Section 21. The name and post office address of each subscriber of this Certificate of Incorporation and the number of shares of Common Stock which he agrees to take are as follows:

<i>Names</i>	<i>Post Office Addresses</i>	<i>No. of Shares</i>
W. Rice Brewster	15 Broad St., New York, N. Y.	10
Albert E. Nuelsen	15 Broad St., New York, N. Y.	10
Charles D. Kyle	15 Broad St., New York, N. Y.	10

Section 22. All of the subscribers of this Certificate are of full age, at least two-thirds of them are citizens of the United States, and at least one of them is a resident of the State of New York, and at least one of the persons named as a director is a citizen of the United States and a resident of the State of New York.

Section 23. The Secretary of State of the State of New York is designated as the agent of this Corporation upon whom process in any action or proceeding against it may be served.

Section 24. The Board of Directors shall have power, if the By-Laws so provide, to hold meetings, outside as well as within the State of New York.

4789-95-18

Section 25. So far as permitted by law, the Board of Directors shall have power also to determine from time to time whether and to what extent and at what times and places and under what conditions and regulations the books, documents and accounts of this Corporation, or any of them, shall be open to the inspection of stockholders; and no stockholder shall have any right to inspect any books, documents or accounts of this Corporation, except as conferred by statute or the By-Laws, or authorized by resolution of the stockholders or the Board of Directors.

Section 26. The Board of Directors shall have power to make, amend, alter, change, add to or repeal the By-Laws of this Corporation without any action on the part of the stockholders; *provided, however,* that all such By-Laws may be amended, altered, changed, added to or repealed by the stockholders; and *provided further, however,* that no By-Law adopted by the Board of Directors regulating an impending election of directors or officers shall be valid unless published for at least once in each of two successive weeks in a newspaper of regular publication in the county where the election is to be held, the last publication to be at least 30 days before such election.

Section 27. In the absence of fraud, no contract or other transaction between this Corporation and any individual, partnership or corporation shall be affected by the fact that any director or officer of this Corporation may be interested in such contract or transaction, whether by reason of being a party thereto or a partner in, director or officer of, or in any other way connected with, such partnership or corporation, if such contract or transaction shall be approved or ratified by the affirmative vote of a majority of the directors

4789-85-19

present at a meeting of the Board of Directors at which a quorum shall be present, provided, however, that the interest of any director or officer in any such contract or transaction shall be fully disclosed at such meeting and that a director who is so interested may not be counted at any such meeting for the purpose of determining the existence of a quorum to consider and vote upon any contract or transaction in which he is so interested and that the vote of such a director may not be counted at any such meeting for the purpose of determining the existence of the affirmative vote of a majority of the directors as aforesaid in favor of the approval or ratification of any contract or transaction in which he is so interested.

No director or officer shall be liable to account to this Corporation for any profit realized by him from or through any such contract or transaction of this Corporation by reason of his interest as aforesaid in such contract or transaction if such contract or transaction shall be approved or ratified as aforesaid.

No contract or other transaction between this Corporation and any of its subsidiaries shall in any case be void or voidable or otherwise affected because of the fact that directors or officers of this Corporation are directors or officers of such subsidiary, nor shall any such director or officer, because of such relation, be deemed interested in such contract or other transaction under any of the provisions of this Section 27, nor shall any such director be liable to account because of such relation. For the purpose of this Section 27, the term "subsidiary" shall mean any corporation, more than 50% of whose issued and outstanding shares having ordinary voting power may at the time be owned by this Corporation and/or by one or more subsidiaries as said term is herein defined.

4789-80-20

Section 28. No director or officer of this Corporation need be a stockholder therein.

Section 29. Any director or officer or agent of this Corporation may be removed at any time, with or without cause, in such manner as shall be provided in the By-Laws.

Section 30. Subject to the provisions of Section 12 this Corporation reserves the right to amend and alter this Certificate or to amend, alter, change, add to or repeal any provisions contained herein, in the manner now or hereafter prescribed by statute, and all rights conferred upon officers, directors or stockholders are granted subject to this reservation.

IN WITNESS WHEREOF, we do make, subscribe and acknowledge this Certificate.

Dated: February 21, 1935

W. Rice Bragg (L. S.)

Albert E. Hansen (L. S.)

Charles D. Kyle (L. S.)

4789-85-21

STATE OF New York,
County of New York,)

On this 27th day of February, 1935, before me personally came W. Rice Brewster, Albert E. Nuelsen and Charles D. Kyle, to me known and known to me to be the persons described in and who executed the foregoing Certificate and they severally duly acknowledged to me that they executed the same.

Agnes Pennington
Notary Public.

CPT:HD

AGNES PENNINGTON
N. Y. Co. Clerk No. 1000 of 1930
NOTARY PUBLIC, NEW YORK COUNTY
COMM. EXPIRES 12/31/35



4779-85-22

7-26

[Handwritten signature]

4789

Certificate of Incorporation

OF

GENERAL TELEPHONE CORPORATION

PURSUANT TO ARTICLE TWO OF THE
STOCK CORPORATION LAW
OF NEW YORK

STATE OF NEW YORK
DEPARTMENT OF STATE
FILED

Dated February 21, 1935

Filed *[Signature]*

1935 FEB - 25

TAXES 16,000
FILING FEE 40
[Signature]
STATE

Mulholland Power House & Mill

4789-PS-1

[Handwritten signature]

G07768

1sa

4D

CERTIFICATE OF INCORPORATION
OF
GTE PRODUCTS CORPORATION

* * * * *

1. The name of the corporation is:

✓ GTE PRODUCTS CORPORATION

2. The nature of the business to be transacted or the purposes to be promoted or carried out by the corporation are:

(a) to acquire, purchase, sell, own, hold and otherwise deal in the stock of other corporations and to exercise all the rights, powers and privileges of ownership including the right to vote on any shares of stock so owned; and

(b) to engage in any lawful act or activity for which corporations may be formed under the Stock Corporation Act of the State of Connecticut.

3. The total number of shares of stock which the corporation shall have authority to issue is five thousand (5,000); all of such shares shall be without par value.

4. The minimum amount of state capital with which the corporation shall commence business shall be One Thousand (\$1,000.00) Dollars.

5. The shareholders of the corporation shall have no preemptive rights to subscribe to any shares of any class or to any obligations convertible into shares of the corporation.

6. The corporation is to have perpetual existence.

I, THE UNDERSIGNED, being the incorporator for the purpose of forming a corporation pursuant to the Stock Corporation Act of the State of Connecticut, do hereby declare under the penalties of false statement the statements made in this certificate are true, and accordingly have hereunto set my hand this 28th day of January, 1977.

John L. Hammond
JOHN L. HAMMOND

FILED
STATE OF CONNECTICUT

JAN 31 1977

John Schaffer
SECRETARY OF STATE
By *J. G. ...* Times 2:25 P.M.

450 F.T.H.
30. file
18. 2000
28 A.C.
8-28 Total

attn: John Hammond
24 Rec: To: *JTE*
sent 3-3-77
1 Manford
Attorney

Card ede
Rec'd SL

VOL 905

519

APPOINTMENT OF STATUTORY AGENT FOR SERVICE
DOMESTIC CORPORATION
61-4 REV. 6-66

For office use only	
ACCOUNT NO.	307758
INITIALS	lsa

TO: The Secretary of the State of Connecticut

NAME OF CORPORATION
GTE PRODUCTS CORPORATION

APPOINTMENT

The above corporation appoints as its statutory agent for service, one of the following:

NAME OF NATURAL PERSON WHO IS RESIDENT OF CONNECTICUT	BUSINESS ADDRESS	DP CODE
	RESIDENCE ADDRESS	DP CODE

NAME OF CONNECTICUT CORPORATION	ADDRESS OF PRINCIPAL OFFICE IN CONN. (If none, enter address of appointee's statutory agent for service)
---------------------------------	--

NAME OF CORPORATION not Organized Under the Laws of Conn.	ADDRESS OF PRINCIPAL OFFICE IN CONN. (If none, enter "Secretary of the State of Connecticut")
GTE SERVICE CORPORATION	ONE STAMFORD FORUM, STAMFORD, CONNECTICUT 06904

*Which has procured a Certificate of Authority to transact business or conduct affairs in this state.

AUTHORIZATION

ORIGINAL APPOINTMENT <small>(Must be signed by a majority of incorporators.)</small>	NAME OF INCORPORATOR (Print or type) JOHN L. HAMMOND	SIGNED (Incorporator) <i>John L. Hammond</i>	DATE JANUARY 28, 1977
	NAME OF INCORPORATOR (Print or type)	SIGNED (Incorporator)	
SUBSEQUENT APPOINTMENT	NAME OF PRESIDENT, VICE PRESIDENT, OR SEC.	SIGNED (President, or Vice President, or Secretary)	DATE

ACCEPTANCE

Accepted:	NAME OF STATUTORY AGENT FOR SERVICE (Print or Type) GTE SERVICE CORPORATION	SIGNED (Statutory Agent for service) <i>John P. Mella</i> , Secretary
-----------	--	--

For office use only	FILED STATE OF CONNECTICUT JAN 31 1977 By <i>L. G. [Signature]</i> SECRETARY OF STATE A.M. By <i>L. G. [Signature]</i> TIME 2:26 P.M.	FILING FEE \$	CERTIFICATION FEE \$	TOTAL FEES \$
		SIGNED (For Secretary of the State)	INITIALS	
		CERTIFIED COPY SENT ON (Date)		
		CARD	LIST	PROOF

STATE OF CONNECTICUT }
OFFICE OF THE SECRETARY OF THE STATE } SS. HARTFORD

I hereby certify that this is a true copy of record
in this Office

In Testimony whereof, I have hereunto set my hand,
and affixed the Seal of said State, at Hartford,

this 13th day of September A.D. 2003

Susan Bysiewicz

SECRETARY OF THE STATE

**ORGANIZATION AND FIRST ANNUAL REPORT
DOMESTIC STOCK CORPORATION**
61-7 (A) REV. 9-75

STATE OF CONNECTICUT
SECRETARY OF THE STATE
FILING FEE \$21.00

For office use only
ACCOUNT NO.
1007768
DATE
da

NOTE

Under the provisions of the General Statutes, all corporations are required to file the Organization and First Annual Report within 30 days after the organization meeting. Subsequent annual report forms will be mailed to the corporation at its principal office with instructions for filing in accordance with law.

LATE FEE: This report must be filed within 30 days after the date of organization meeting as shown in Item 2 below. If late, the filing fee is \$50, not \$21.

1. NAME OF CORPORATION GTE Products Corporation	2. DATE OF ORGANIZATION MEETING March 23, 1977
3. ADDRESS OF PRINCIPAL OFFICE IN CONNECTICUT One Stamford Forum, Stamford, Connecticut 06904	4. REPORT DATE April 7, 1977

5. DIRECTORS AND OFFICERS (Include Zip Code)			
Name	Title	Business address	Business address
Merle W. Kremer	President, Director	One Stamford Forum, Stamford, Connecticut 06904	Meeting Grove Lane, West Norwalk, Conn. 06850
Joel P. Mellis	Secretary	"	280 Barncroft Road, Stamford, Connecticut 06902
James M. Dunn, Jr.	Treasurer	"	38 Kellogg Dr., Wilton, Conn. 06897
Edward A. Fancas	Assistant Secretary	"	440 W. 24th St., Apt. 16A, New York, New York 10011
Theodore F. Brophy	Director	"	9 Pecksland Rd., Greenwich, Connecticut 06831
John J. Douglas	Director	"	136 Jonathan Drive, Stamford, Connecticut 06903

6. AGGREGATE ISSUED SHARES					
Class	Series	Par	Number issued and outstanding	Number in treasury	Amount payable on shares if not fully paid
Common Stock		No Par	100		

7. I hereby declare, under the penalties of false statement, that the statements made in this report are true.
 DATE: April 7, 1977
 OFFICER'S SIGNATURE: Joel P. Mellis
 TITLE: Secretary

*A date not later than the filing date and not earlier than the date of any change of circumstances affecting the statements in this report.

FOR OFFICE USE ONLY	FILED STATE OF CONNECTICUT APR 12 1977 SECRETARY OF STATE Time 9:01 A.M.	FILED FEE \$21.	CERTIFICATION FEE \$	TOTAL FEES \$21.
		SIGNED For Secretary of the Board <i>Joel P. Mellis</i>		
		CERTIFIED-COPY SENT ON Demand INITIALS AP		
		TO GTE Service Organization One Stamford Forum, Stamford CT 06904 CARD LIST PROOF		

ATTN: John L. Hammond Esq

STATE OF CONNECTICUT }
OFFICE OF THE SECRETARY OF THE STATE } SS. HARTFORD

I hereby certify that this is a true copy of record
in this Office

In Testimony whereof, I have hereunto set my hand,
and affixed the Seal of said State, at Hartford,
this 23rd day of September A.D. 2003

Susan B. Bynum
SECRETARY OF THE STATE

**AGREEMENT AND PLAN
OF MERGER**

**DATED AS OF
JULY 27, 1998**

AMONG

BELL ATLANTIC CORPORATION,

BETA GAMMA CORPORATION

AND

GTE CORPORATION

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of July 27, 1998 ("the date hereof"), is entered into by and among Bell Atlantic Corporation, a Delaware corporation ("Bell Atlantic"), Beta Gamma Corporation, a New York corporation and a wholly owned subsidiary of Bell Atlantic ("Merger Subsidiary"), and GTE Corporation, a New York corporation ("GTE").

WHEREAS, the Board of Directors of each of Bell Atlantic, Merger Subsidiary and GTE has determined that it is in the best interests of its stockholders that Bell Atlantic and GTE enter into a business combination under which a subsidiary of Bell Atlantic will merge with and into GTE pursuant to the Merger (as defined in Section 1.1 hereof) and Bell Atlantic and GTE desire to enter into the "merger of equals" transaction contemplated hereby, and, in connection therewith, to make certain representations, warranties and agreements;

WHEREAS, as a condition to, and immediately after, the execution of this Agreement, and as a condition to the execution of the Bell Atlantic Option Agreement (as defined below), GTE and Bell Atlantic are entering into a stock option agreement (the "GTE Option Agreement") in the form attached hereto as Exhibit A;

WHEREAS, as a condition to, and immediately after, the execution of this Agreement, and as a condition to the execution of the GTE Option Agreement, GTE and Bell Atlantic are entering into a stock option agreement (the "Bell Atlantic Option Agreement", and together with the GTE Option Agreement, the "Option Agreements") in the form attached hereto as Exhibit B;

WHEREAS, the Board of Directors of each of Bell Atlantic, Merger Subsidiary and GTE has determined that the Merger and the other transactions contemplated hereby are consistent with, and in furtherance of, its business strategies and goals and has approved the Merger upon the terms and conditions set forth herein;

WHEREAS, for federal income tax purposes, it is intended that the Merger shall constitute a tax-free reorganization under Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, for accounting purposes, it is intended that the Merger shall be accounted for as a pooling of interests under United States generally accepted accounting principles ("GAAP");

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I—THE MERGER

SECTION 1.1—*The Merger.* At the Effective Time (as defined in Section 1.2 hereof) and subject to and upon the terms and conditions of this Agreement and the New York Business Corporation Law ("NYBCL"), Merger Subsidiary will be merged with and into GTE (the "Merger"), whereby the separate corporate existence of Merger Subsidiary shall cease and GTE shall continue as the surviving corporation which shall be a wholly-owned subsidiary of Bell Atlantic. GTE as the surviving corporation after the Merger is herein sometimes referred to as the "Surviving Corporation" and Merger Subsidiary as the non-surviving corporation after the Merger is herein sometimes referred to as the "Merged Corporation." GTE, Bell Atlantic and Merger Subsidiary are herein referred to collectively as the "Parties" and each individually as a "Party."

SECTION 1.2—*Effective Time.* As promptly as practicable after the satisfaction or waiver of the conditions set forth in Article VIII hereof and the consummation of the Closing referred to in Section 7.2(b) hereof, the Parties shall cause the Merger to be consummated by filing a Certificate of Merger with the Secretary of State of the State of New York with respect to the Merger, in such form as required by, and executed in accordance with, the relevant provisions of the NYBCL (the time of such filing being the "Effective Time").

SECTION 1.3—*Effect of the Merger.* At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of the NYBCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of GTE and Merger Subsidiary shall continue with, or vest in, as the case may be, GTE as the Surviving Corporation, and all debts, liabilities and duties of GTE and Merger Subsidiary shall continue to be, or become, as the case may be, the debts, liabilities and duties of GTE as the Surviving Corporation. As of the Effective Time, the Surviving Corporation shall be a direct wholly-owned subsidiary of Bell Atlantic.

SECTION 1.4—*Subsequent Actions.* If at any time after the Effective Time the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to continue in, vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties, privileges, franchises or assets of either of its constituent corporations acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger or otherwise to carry out this Agreement, the officers and directors of the Surviving Corporation shall be directed and authorized to execute and deliver, in the name and on behalf of either of such constituent corporations, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of each of such corporations or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties, privileges, franchises or assets in the Surviving Corporation or otherwise to carry out this Agreement.

SECTION 1.5—*Certificate of Incorporation; Bylaws; Directors and Officers of Surviving Corporation.* Unless otherwise agreed by GTE and Bell Atlantic before the Effective Time, at the Effective Time:

(a) the Certificate of Incorporation of GTE as the Surviving Corporation shall be the Certificate of Incorporation of GTE as in effect immediately prior to the Effective Time, until thereafter amended as provided by law and such Certificate of Incorporation;

(b) the Bylaws of GTE as the Surviving Corporation shall be the Bylaws of GTE immediately prior to the Effective Time, until thereafter amended as provided by law and the Certificate of Incorporation and the Bylaws of such Surviving Corporation; and

(c) the directors and officers of GTE immediately prior to the Effective Time shall continue to serve in their respective offices of the Surviving Corporation from and after the Effective Time, in each case until their successors are elected or appointed and qualified or until their resignation or removal. If at the Effective Time a vacancy shall exist on the Board of Directors or in any office of the Surviving Corporation, such vacancy may thereafter be filled in the manner provided by law and the Bylaws of the Surviving Corporation.

ARTICLE II—EFFECT ON STOCK OF THE SURVIVING CORPORATION AND THE MERGED CORPORATION

SECTION 2.1—*Conversion of Securities.* The manner and basis of converting the shares of common stock of the Surviving Corporation and of the Merged Corporation at the Effective Time, by virtue of the Merger and without any action on the part of any of the Parties or the holder of any of such securities, shall be as hereinafter set forth in this Article II.

SECTION 2.2—*Conversion of Shares.* (a) Subject to Section 2.7, each share of common stock, par value \$0.05 per share, of GTE ("GTE Common Stock") issued and outstanding immediately before the Effective Time (excluding those cancelled pursuant to Section 2.3) and all rights in respect thereof, shall at the Effective Time, without any action on the part of any holder thereof, be converted into and become 1.22 shares of common stock, par value \$0.10 per share, of Bell Atlantic ("Bell Atlantic Common Stock"). Such ratio of GTE Common Stock to Bell Atlantic Common Stock is herein referred to as the "Exchange Ratio."

(b) As of the Effective Time, all shares of GTE Common Stock converted pursuant to Section 2.2(a) shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate (each, an "Old Certificate") representing any such shares of GTE Common Stock shall cease to have any rights with respect thereto: except the right to receive shares of Bell Atlantic Common Stock, in accordance with Section 2.2(a), certain dividends or other distributions in accordance with Section 2.5(b) and any cash in lieu of fractional shares of Bell Atlantic Common Stock to be issued or paid in consideration therefor upon surrender of such certificate in accordance with Section 2.5, without interest.

(c) For all purposes of this Agreement, unless otherwise specified, each share of GTE Common Stock held by employee stock ownership plans of GTE (i) shall be deemed to be issued and outstanding, (ii) shall not be deemed to be held in the treasury of GTE and (iii) shall be converted into shares of Bell Atlantic Common Stock in accordance with the Exchange Ratio.

SECTION 2.3—Cancellation of Treasury Shares and Bell Atlantic-owned Shares. At the Effective Time, each share of GTE Common Stock held in the treasury of GTE or owned by Bell Atlantic immediately prior to the Effective Time shall be cancelled and retired and no shares of stock or other securities of Bell Atlantic or the Surviving Corporation shall be issuable, and no payment or other consideration shall be made, with respect thereto.

SECTION 2.4—Conversion of Common Stock of the Merged Corporation into Common Stock of the Surviving Corporation. At the Effective Time, each share of common stock of Merger Subsidiary issued and outstanding immediately prior to the Effective Time, and all rights in respect thereof, shall, without any action on the part of Bell Atlantic, forthwith cease to exist and be converted into 1,000 validly issued, fully paid and nonassessable shares of common stock, par value \$0.05 per share, of the Surviving Corporation (the "Surviving Corporation Common Stock"). Immediately after the Effective Time and upon surrender by Bell Atlantic of the certificate representing the shares of the common stock of Merger Subsidiary, GTE as the Surviving Corporation shall deliver to Bell Atlantic an appropriate certificate or certificates representing the Surviving Corporation Common Stock created by conversion of the common stock of Merger Subsidiary owned by Bell Atlantic.

SECTION 2.5—Exchange Procedures. (a) Subject to the terms and conditions hereof, at or prior to the Effective Time Bell Atlantic and GTE shall jointly appoint an exchange agent (the "Exchange Agent") to effect the exchange of Old Certificates for Bell Atlantic Common Stock in accordance with the provisions of this Article II. At the Effective Time, Bell Atlantic shall deposit, or cause to be deposited, with the Exchange Agent certificates representing Bell Atlantic Common Stock for exchange for Old Certificates in accordance with the provisions of Section 2.2 hereof (such certificates, together with any dividends or distributions with respect thereto, being herein referred to as the "Exchange Fund"). Commencing immediately after the Effective Time and until the appointment of the Exchange Agent shall be terminated, each holder of an Old Certificate may surrender the same to the Exchange Agent, and, after the appointment of the Exchange Agent shall be terminated, any such holder may surrender any such certificate to Bell Atlantic. Such holder shall be entitled upon such surrender to receive in exchange therefor a certificate or certificates representing the number of whole shares of Bell Atlantic Common Stock such holder has a right to receive in accordance with Section 2.2 hereof, certain dividends or other distributions in accordance with Section 2.5(b) hereof, and a cash payment in lieu of fractional shares, if any, in accordance with Section 2.7 hereof, and such Old Certificate shall forthwith be cancelled. The whole shares of Bell Atlantic Common Stock to be delivered to such holder shall be delivered in book entry form, unless such holder shall timely elect in writing to receive the certificates representing such shares.

Unless and until any such Old Certificate is so surrendered, and except as may be determined by Bell Atlantic for a period not to exceed six months after the Effective Time, no dividend or other distribution, if any, payable to the holders of record of Bell Atlantic Common Stock as of any date subsequent to the Effective Time shall be paid to the holder of such certificate in respect thereof. Except as otherwise provided in Section 2.6 hereof, upon the surrender of any such Old Certificate, however, the record holder of the certificate or

certificates representing shares of Bell Atlantic Common Stock issued in exchange therefor shall receive from the Exchange Agent or from Bell Atlantic, as the case may be, payment of the amount of dividends and other distributions, if any, which as of any date subsequent to the Effective Time and until such surrender shall have become payable and were not paid with respect to such number of shares of Bell Atlantic Common Stock ("Pre-Surrender Dividends"). No interest shall be payable with respect to the payment of Pre-Surrender Dividends upon the surrender of Old Certificates. After the appointment of the Exchange Agent shall have been terminated, any holders of Old Certificates which have not received payment of Pre-Surrender Dividends shall look only to Bell Atlantic for payment thereof. Notwithstanding the foregoing provisions of this Section 2.5 (b), neither the Exchange Agent nor any Party shall be liable to a holder of an Old Certificate for any Bell Atlantic Common Stock, any dividends or distributions thereon or any cash payment for fractional shares as contemplated by Section 2.7, delivered to a public official pursuant to any applicable abandoned property, escheat or similar law or to a transferee pursuant to Section 2.6 hereof.

(b) Notwithstanding anything herein to the contrary, certificates surrendered for exchange by any "affiliate" of GTE shall not be exchanged until Bell Atlantic shall have received a signed agreement from such "affiliate" as provided in Section 7.14 hereof.

SECTION 2.6—Transfer Books. The stock transfer books of GTE shall be closed at the Effective Time and no transfer of any shares of GTE Common Stock will thereafter be recorded on any of such stock transfer books. In the event of a transfer of ownership of GTE Common Stock that is not registered in the stock transfer records of GTE at the Effective Time, a certificate or certificates representing the number of whole shares of Bell Atlantic Common Stock into which such shares of GTE Common Stock shall have been converted shall be issued to the transferee together with a cash payment in lieu of fractional shares, if any, in accordance with Section 2.7 hereof, and a cash payment in the amount of Pre-Surrender Dividends, if any, in accordance with Section 2.5 (b) hereof, if the Old Certificate therefor is surrendered as provided in Section 2.5 hereof, accompanied by all documents required to evidence and effect such transfer and by evidence of payment of any applicable stock transfer tax. The whole shares of Bell Atlantic Common Stock to be delivered to such holder shall be delivered in book entry form, unless such holder shall timely elect in writing to receive the certificates representing such shares.

SECTION 2.7—No Fractional Share Certificates. (a) No scrip or fractional share certificate for Bell Atlantic Common Stock will be issued in certificated or book entry form upon the surrender for exchange of Old Certificates, and an outstanding fractional share interest will not entitle the owner thereof to vote, to receive dividends or to any rights of a stockholder of Bell Atlantic or of the Surviving Corporation with respect to such fractional share interest.

(b) As promptly as practicable following the Effective Time, the Exchange Agent shall determine the excess of (i) the number of whole shares of Bell Atlantic Common Stock to be issued and delivered to the Exchange Agent pursuant to Section 2.5 hereof over (ii) the aggregate number of whole shares of Bell Atlantic Common Stock to be distributed to holders of GTE Common Stock pursuant to Section 2.5 hereof (such excess being herein called "Excess Shares"). Following the Effective Time, the Exchange Agent, as agent for the holders of GTE Common Stock, shall sell the Excess Shares at then prevailing prices on the New York Stock Exchange (the "NYSE"), all in the manner provided in subsection (c) of this Section 2.7.

(c) The sale of the Excess Shares by the Exchange Agent shall be executed on the NYSE through one or more member firms of the NYSE and shall be executed in round lots to the extent practicable. The Exchange Agent shall use all reasonable efforts to complete the sale of the Excess Shares as promptly following the Effective Time as, in the Exchange Agent's reasonable judgment, is practicable consistent with obtaining the best execution of such sales in light of prevailing market conditions. The Exchange Agent shall, out of the proceeds from the sale of the Excess Shares, pay all commissions, transfer taxes and other out-of-pocket transaction costs, including the expenses and compensation of the Exchange Agent, incurred in connection with such sale of the Excess Shares. Until the net proceeds of such sale or sales have been distributed to the holders of GTE Common Stock, the Exchange Agent will hold such proceeds in trust for the holders of GTE Common

Stock (the "Common Shares Trust"). The Exchange Agent shall determine the portion of the Common Shares Trust to which each holder of GTE Common Stock shall be entitled, if any, by multiplying the amount of the aggregate net proceeds comprising the Common Shares Trust by a fraction the numerator of which is the amount of fractional share interests to which such holder of GTE Common Stock is entitled (after taking into account all shares of GTE Common Stock held at the Effective Time by such holder) and the denominator of which is the aggregate amount of fractional share interests to which all holders of GTE Common Stock are entitled.

(d) Notwithstanding the provisions of subsections (b) and (c) of this Section 2.7, GTE and Bell Atlantic may agree at their option, exercised prior to the Effective Time, in lieu of the issuance and sale of Excess Shares and the making of the payments contemplated in such subsections, that Bell Atlantic shall pay to the Exchange Agent an amount sufficient for the Exchange Agent to pay each holder of GTE Common Stock an amount in cash equal to the product obtained by multiplying (i) the fractional share interest to which such holder would otherwise be entitled (after taking into account all shares of GTE Common Stock held at the Effective Time by such holder) by (ii) the closing price for a share of Bell Atlantic Common Stock on the NYSE Composite Transaction Tape on the first business day immediately following the Effective Time, and, in such case, all references herein to the cash proceeds of the sale of the Excess Shares and similar references shall be deemed to mean and refer to the payments calculated as set forth in this subsection (d). In such event, Excess Shares shall not be issued or otherwise transferred to the Exchange Agent pursuant to Section 2.5 (a) hereof or, if previously issued, shall be returned to Bell Atlantic for cancellation.

(e) As soon as practicable after the determination of the amounts of cash, if any, to be paid to holders of GTE Common Stock with respect to any fractional share interests, the Exchange Agent shall make available such amounts, net of any required withholding, to such holders of GTE Common Stock, subject to and in accordance with the terms of Section 2.5 hereof.

(f) Any portion of the Exchange Fund and the Common Shares Trust which remains undistributed for six months after the Effective Time shall be delivered to Bell Atlantic, upon demand, and any holders of GTE Common Stock who have not theretofore complied with the provisions of this Article II shall thereafter look only to Bell Atlantic for satisfaction of their claims for Bell Atlantic Common Stock, any cash in lieu of fractional shares of Bell Atlantic Common Stock and any Pre-Surrender Dividends.

SECTION 2.8—Options to Purchase GTE Common Stock. (a) At the Effective Time, each option or warrant granted by GTE to purchase shares of GTE Common Stock which is outstanding and unexercised immediately prior to the Effective Time shall be assumed by Bell Atlantic and converted into an option or warrant to purchase shares of Bell Atlantic Common Stock in such amount and at such exercise price as provided below and otherwise having the same terms and conditions as are in effect immediately prior to the Effective Time (except to the extent that such terms, conditions and restrictions may be altered in accordance with their terms as a result of the transactions contemplated hereby):

(i) the number of shares of Bell Atlantic Common Stock to be subject to the new option or warrant shall be equal to the product of (x) the number of shares of GTE Common Stock subject to the original option or warrant and (y) the Exchange Ratio;

(ii) the exercise price per share of Bell Atlantic Common Stock under the new option or warrant shall be equal to (x) the exercise price per share of the GTE Common Stock under the original option or warrant divided by (y) the Exchange Ratio; and

(iii) upon each exercise of options or warrants by a holder thereof, the aggregate number of shares of Bell Atlantic Common Stock deliverable upon such exercise shall be rounded down, if necessary, to the nearest whole share and the aggregate exercise price shall be rounded up, if necessary, to the nearest cent.

The adjustments provided herein with respect to any options which are "incentive stock options" (as defined in Section 422 of the Code) shall be effected in a manner consistent with Section 424(a) of the Code.

(b) At the Effective Time, each stock appreciation right ("SAR") with respect to GTE Common Stock which is outstanding and unexercised immediately before the Effective Time shall be converted into an SAR with respect to shares of Bell Atlantic Common Stock on the same terms and conditions as are in effect immediately prior to the Effective Time, with the adjustments set forth in subsection (a) of this Section 2.8.

SECTION 2.9—Restricted Stock. At the Effective Time, any shares of GTE Common Stock awarded pursuant to any plan, arrangement or transaction, and outstanding immediately prior to the Effective Time shall be converted into shares of Bell Atlantic Common Stock in accordance with Section 2.2 hereof, subject to the same terms, conditions and restrictions as in effect immediately prior to the Effective Time, except to the extent that such terms, conditions and restrictions may be altered in accordance with their terms as a result of the transactions contemplated hereby.

SECTION 2.10—Certain Adjustments. If between the date hereof and the Effective Time, the outstanding shares of GTE Common Stock or of Bell Atlantic Common Stock shall be changed into a different number of shares by reason of any reclassification, recapitalization, split-up, combination or exchange of shares, or any dividend payable in stock or other securities shall be declared thereon with a record date within such period, the Exchange Ratio shall be adjusted accordingly to provide to the holders of GTE Common Stock and Bell Atlantic Common Stock the same economic effect as contemplated by this Agreement prior to such reclassification, recapitalization, split-up, combination, exchange or dividend.

ARTICLE III—CERTAIN ADDITIONAL MATTERS

SECTION 3.1—Certificate of Incorporation and Bylaws of Bell Atlantic. At the Effective Time and subject to and upon the terms and conditions of this Agreement and the General Corporation Law of the State of Delaware ("DGCL"), Bell Atlantic shall cause the Certificate of Incorporation of Bell Atlantic and the Bylaws of Bell Atlantic to be amended and restated to incorporate the provisions set forth in Appendices I-A and I-B hereto, respectively. Such amendment and restatement of the Bell Atlantic Certificate of Incorporation and amendment and restatement of the Bell Atlantic Bylaws are referred to herein as the "Certificate Amendment" and the "Bylaws Amendment," respectively.

SECTION 3.2—Dividends. Each of GTE and Bell Atlantic shall coordinate with the other the declaration of, and the setting of record dates and payment dates for, dividends on GTE Common Stock and Bell Atlantic Common Stock so that holders of GTE Common Stock do not (i) receive dividends on both GTE Common Stock and Bell Atlantic Common Stock received in connection with the Merger in respect of any calendar quarter or (ii) fail to receive a dividend on either GTE Common Stock or Bell Atlantic Common Stock received in connection with the Merger in respect of any calendar quarter.

SECTION 3.3—Headquarters. GTE and Bell Atlantic agree that immediately following the Effective Time the headquarters of Bell Atlantic shall be located in New York, New York.

SECTION 3.4—Corporate Identity. GTE and Bell Atlantic agree that at the Effective Time, the corporate name of Bell Atlantic shall be as shall have been agreed by the Parties.

ARTICLE IV—REPRESENTATIONS AND WARRANTIES OF GTE

Except as expressly disclosed in the GTE Filed SEC Reports (as defined below) (including all exhibits referred to therein) or as set forth in the disclosure schedule delivered by GTE to Bell Atlantic on the date hereof (the "GTE Disclosure Schedule") (each section of which qualifies the correspondingly numbered representation and warranty or covenant as specified therein), GTE hereby represents and warrants to Bell Atlantic as follows:

SECTION 4.1—Organization and Qualification; Subsidiaries. Each of GTE and each of its Significant Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its

jurisdiction of incorporation or organization. Each of the GTE Subsidiaries which is not a Significant Subsidiary is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, except for such failure which, when taken together with all other such failures, would not reasonably be expected to have a Material Adverse Effect on GTE. Each of GTE and its Subsidiaries has the requisite corporate power and authority and any necessary governmental authority, franchise, license, certificate or permit to own, operate or lease the properties that it purports to own, operate or lease and to carry on its business as it is now being conducted, and is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such qualification necessary, except for such failure which, when taken together with all other such failures, would not reasonably be expected to have a Material Adverse Effect on GTE.

SECTION 4.2—Certificate of Incorporation and Bylaws. GTE has heretofore furnished, or otherwise made available, to Bell Atlantic a complete and correct copy of the Certificate of Incorporation and the Bylaws, each as amended to the date hereof, of GTE. Such Certificate of Incorporation and Bylaws are in full force and effect. Neither GTE nor any of its Significant Subsidiaries is in violation of any of the provisions of its respective Certificate of Incorporation or, in any material respect, its Bylaws.

SECTION 4.3—Capitalization. (a) The authorized capital stock of GTE consists of (i) 9,217,764 shares of preferred stock, par value \$50.00 per share, none of which are outstanding or reserved for issuance, (ii) 11,727,502 shares of preferred stock, no par value per share, none of which are outstanding and 700,000 of which have been reserved for issuance in accordance with the Rights Agreement (as defined below), and (iii) 2,000,000,000 shares of GTE Common Stock; of which, as of June 30, 1998, (A) 963,241,244 shares were issued and outstanding, (B) 25,658,980 shares were held in the treasury of GTE, (C) not more than 50,000,000 shares were issuable upon the exercise of options outstanding under the GTE option plans, and (D) 31,603,945 shares were reserved for issuance in connection with other GTE Plans (as defined in Section 4.11(b) below). Except for GTE Equity Rights issued to GTE employees in the ordinary course of business or, after the date hereof, as permitted by Section 6.2 hereof or pursuant to the Bell Atlantic Option Agreement, (i) since June 30, 1998, no shares of GTE Common Stock have been issued, except upon the exercise of options described in the immediately preceding sentence, and (ii) there are no outstanding GTE Equity Rights. For purposes of this Agreement, "GTE Equity Rights" shall mean subscriptions, options, warrants, calls, commitments, agreements, conversion rights or other rights of any character (contingent or otherwise) to purchase or otherwise acquire any shares of the capital stock of GTE from GTE or any of GTE's Subsidiaries at any time, or upon the happening of any stated event, except for rights granted under the Rights Agreement, dated as of December 7, 1989 (the "GTE Rights Agreement"), between GTE and the Rights Agent (as defined therein), and the Bell Atlantic Option Agreement. Section 4.3 of the GTE Disclosure Schedule sets forth a complete and accurate list of certain information with respect to all outstanding GTE Equity Rights as of June 30, 1998.

(b) Except as set forth in Section 4.3 of the GTE Disclosure Schedule, pursuant to the Bell Atlantic Option Agreement, or, after the date hereof, as permitted by Section 6.2 hereof, there are no outstanding obligations of GTE or any of GTE's Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of GTE.

(c) All of the issued and outstanding shares of GTE Common Stock are validly issued, fully paid and nonassessable.

(d) All of the outstanding capital stock of each of GTE's Significant Subsidiaries, and all of the outstanding capital stock of GTE's Subsidiaries owned directly or indirectly by GTE, is duly authorized, validly issued, fully paid and nonassessable. All of the outstanding capital stock of each of GTE's Significant Subsidiaries is owned by GTE free and clear of any liens, security interests, pledges, agreements, claims, charges or encumbrances. All of the outstanding capital stock of GTE's Subsidiaries owned directly or indirectly by GTE is owned free and clear of any liens, security interests, pledges, agreements, claims, charges or encumbrances, except where such liens, security interests, pledges, agreements, claims, charges or

encumbrances would not, individually or in the aggregate, have a Material Adverse Effect on GTE. Except as hereafter issued or entered into in accordance with Section 6.2 hereof, there are no existing subscriptions, options, warrants, calls, commitments, agreements, conversion rights or other rights of any character (contingent or otherwise) to purchase or otherwise acquire from GTE or any of GTE's Subsidiaries at any time, or upon the happening of any stated event, any shares of the capital stock of any GTE Subsidiary, whether or not presently issued or outstanding (except for rights of first refusal to purchase interests in Subsidiaries which are not wholly owned by GTE), or any of GTE's direct or indirect interests in any Material Investment, and there are no outstanding obligations of GTE or any of GTE's Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of any of GTE's Subsidiaries or securities related to any investments, other than such as would not, individually or in the aggregate, have a Material Adverse Effect on GTE.

SECTION 4.4—*Authority Relative to this Agreement.* GTE has the necessary corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approval of the Merger Agreement by GTE's stockholders required by the NYBCL (the "GTE Stockholder Approval"), to perform its obligations hereunder. The execution and delivery of this Agreement by GTE, and the consummation by GTE of the transactions contemplated hereby, have been duly authorized by all necessary corporate action on the part of GTE, subject to obtaining the GTE Stockholder Approval. This Agreement has been duly executed and delivered by GTE and, assuming the due authorization, execution and delivery thereof by each of Bell Atlantic and Merger Subsidiary, constitutes a legal, valid and binding obligation of GTE, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the rights and remedies of creditors generally and to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

SECTION 4.5—*No Conflict; Required Filings and Consents.* (a) Except as described in subsection (b) below, the execution and delivery of this Agreement by GTE do not, and the performance of this Agreement by GTE will not, (i) violate or conflict with the Certificate of Incorporation or Bylaws of GTE, (ii) conflict with or violate any law, regulation, court order, judgment or decree applicable to GTE or any of its Subsidiaries or by which any of their respective property or assets (including investments) is bound or affected, (iii) violate or conflict with the Certificate of Incorporation or Bylaws of any of GTE's Subsidiaries, (iv) result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination or cancellation of, or result in the creation of a lien or encumbrance on any of the properties or assets (including investments) of GTE or any of its Subsidiaries pursuant to, result in the loss of any material benefit under, or result in any modification or alteration of, or require the consent of any other party to, any contract, instrument, permit, license or franchise to which GTE or any of its Subsidiaries is a party or by which GTE, any of such Subsidiaries or any of their respective property or assets (including investments) is bound or affected, except, in the case of clauses (ii), (iii), and (iv) above, for conflicts, violations, breaches, defaults, results or consents which, individually or in the aggregate, would not have a Material Adverse Effect on GTE.

(b) Except for applicable requirements, if any, of state or foreign public utility commissions or laws or similar local or state or foreign regulatory bodies or laws, state or foreign antitrust or foreign investment laws and commissions, the Federal Communications Commission, stock exchanges upon which securities of GTE are listed, the Exchange Act, the premerger notification requirements of the HSR Act, filing and recordation of appropriate merger or other documents as required by the NYBCL and any filings required pursuant to any state securities or "blue sky" laws or the rules of any applicable stock exchanges, (i) neither GTE nor any of its Significant Subsidiaries is required to submit any notice, report or other filing with any federal, state, local or foreign government, any court, administrative, regulatory or other governmental agency, commission or authority or any non-governmental U.S. or foreign self-regulatory agency, commission or authority or any arbitral tribunal (each, a "Governmental Entity") in connection with the execution, delivery or performance of this Agreement and (ii) no waiver, consent, approval or authorization of any Governmental Entity is required to be obtained by GTE or any of its Significant Subsidiaries in connection with its execution, delivery or performance of this Agreement.

SECTION 4.6—SEC Filings; Financial Statements. (a) GTE has filed all forms, reports and documents required to be filed with the Securities and Exchange Commission ("SEC") since January 1, 1995, and has heretofore delivered or made available to Bell Atlantic, in the form filed with the SEC, together with any amendments thereto, its (i) Annual Reports on Form 10-K for the fiscal years ended December 31, 1995, 1996 and 1997, (ii) all proxy statements relating to GTE's meetings of stockholders (whether annual or special) held since January 1, 1995, (iii) Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1998, and (iv) all other reports or registration statements filed by GTE with the SEC since January 1, 1995, including without limitation all Annual Reports on Form 11-K filed with respect to the GTE Plans (collectively, the "GTE SEC Reports", with such GTE SEC Reports filed with the SEC prior to the date hereof being referred to as "GTE Filed SEC Reports"). The GTE SEC Reports (i) were prepared substantially in accordance with the requirements of the 1933 Act or the Exchange Act (as defined in Section 10.4 hereof), as the case may be, and the rules and regulations promulgated under each of such respective acts, and (ii) did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements, including all related notes and schedules, contained in the GTE SEC Reports (or incorporated by reference therein) fairly present the consolidated financial position of GTE and its Subsidiaries as at the respective dates thereof and the consolidated results of operations and cash flows of GTE and its Subsidiaries for the periods indicated in accordance with GAAP applied on a consistent basis throughout the periods involved (except for changes in accounting principles disclosed in the notes thereto) and subject in the case of interim financial statements to normal year-end adjustments.

SECTION 4.7—Absence of Certain Changes or Events. Except as disclosed in the GTE Filed SEC Reports and in Section 4.7 of the GTE Disclosure Schedule, since December 31, 1997, and except as permitted by this Agreement or consented to hereunder, GTE and its Subsidiaries have not incurred any material liability required to be disclosed on a balance sheet of GTE and its Subsidiaries or the footnotes thereto prepared in conformity with GAAP, except in the ordinary course of their businesses consistent with their past practices, and there has not been any change, or any event involving a prospective change, in the business, financial condition or results of operations of GTE or any of its Subsidiaries which has had, or is reasonably likely to have, a Material Adverse Effect on GTE, and GTE and its Subsidiaries have conducted their respective businesses in the ordinary course consistent with their past practices.

SECTION 4.8—Litigation. There are no claims, actions, suits, proceedings or investigations pending or, to GTE's knowledge, threatened against GTE or any of its Subsidiaries, or any properties or rights of GTE or any of its Subsidiaries, by or before any Governmental Entity, except for those that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on GTE or prevent, materially delay or intentionally delay the ability of GTE to consummate transactions contemplated hereby.

SECTION 4.9—Permits; No Violation of Law. The businesses of GTE and its Subsidiaries are not being conducted in violation of any statute, law, ordinance, regulation, judgment, order or decree of any Governmental Entity (including any stock exchange or other self-regulatory body) ("Legal Requirements"), or in violation of any permits, franchises, licenses, authorizations, certificates, variances, exemptions, orders, registrations or consents that are granted by any Governmental Entity (including any stock exchange or other self-regulatory body) ("Permits"), except for possible violations none of which, individually or in the aggregate, may reasonably be expected to have a Material Adverse Effect on GTE. No investigation or review by any Governmental Entity (including any stock exchange or other self-regulatory body) with respect to GTE or its Subsidiaries in relation to any alleged violation of law or regulation is pending or, to GTE's knowledge, threatened, nor has any Governmental Entity (including any stock exchange or other self-regulatory body) indicated an intention to conduct the same, except for such investigations which, if they resulted in adverse findings, would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on GTE. Except as set forth in Section 4.9 of the GTE Disclosure Schedule, neither GTE nor any of its Subsidiaries is subject to any cease and desist or other order, judgment, injunction or decree issued by, or is a

party to any written Agreement, consent Agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has adopted any board resolutions at the request of, any Governmental Entity that materially restricts the conduct of its business or which may reasonably be expected to have a Material Adverse Effect on GTE, nor has GTE or any of its Subsidiaries been advised that any Governmental Entity is considering issuing or requesting any of the foregoing. None of the representations and warranties made in this Section 4.9 are being made with respect to Environmental Laws.

SECTION 4.10—Joint Proxy Statement. None of the information supplied or to be supplied by or on behalf of GTE for inclusion or incorporation by reference in the registration statement to be filed with the SEC by Bell Atlantic in connection with the issuance of shares of Bell Atlantic Common Stock in the Merger (the "Registration Statement") will, at the time the Registration Statement becomes effective under the 1933 Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. None of the information supplied or to be supplied by or on behalf of GTE for inclusion or incorporation by reference in the joint proxy statement, in definitive form, relating to the meetings of GTE and Bell Atlantic stockholders to be held in connection with the Merger, or in the related proxy and notice of meeting, or soliciting material used in connection therewith (referred to herein collectively as the "Joint Proxy Statement") will, at the dates mailed to stockholders and at the times of the GTE stockholders' meeting and the Bell Atlantic stockholders' meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Registration Statement and the Joint Proxy Statement (except for information relating solely to Bell Atlantic) will comply as to form in all material respects with the provisions of the 1933 Act and the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 4.11—Employee Matters: ERISA. (a) Except where the failure to be true would not, individually or in the aggregate, have a Material Adverse Effect on GTE, (i) each GTE Plan has been operated and administered in accordance with applicable law, including but not limited to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code, (ii) each GTE Plan intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified, (iii) except as required by COBRA, no GTE Plan provides death or medical benefits (whether or not insured), with respect to current or former employees of GTE or of any trade or business, whether or not incorporated, which together with GTE would be deemed a "single employer" within the meaning of Section 4001 of ERISA (a "GTE ERISA Affiliate"), beyond their retirement or other termination of service, (iv) no liability under Title IV of ERISA has been incurred by GTE or any GTE ERISA Affiliate that has not been satisfied in full, and no condition exists that presents a material risk to GTE or any GTE ERISA Affiliate of incurring any such liability (other than PBGC premiums), (v) all contributions or other amounts due from GTE or any GTE ERISA Affiliate with respect to each GTE Plan have been paid in full, (vi) neither GTE nor any GTE ERISA Affiliate has engaged in a transaction in connection with which GTE or any of its Subsidiaries could reasonably be expected to be subject to either a civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 or 4976 of the Code, (vii) to the best knowledge of GTE there are no pending, threatened or anticipated claims (other than routine claims for benefits) by, on behalf of or against any GTE Plan or any trusts related thereto, and (viii) neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (A) result in any payment (including, without limitation, severance, unemployment compensation, golden parachute or otherwise) becoming due to any director or any employee of GTE or any of its Subsidiaries under any GTE Plan or otherwise, (B) materially increase any benefits otherwise payable under any GTE Plan or (C) result in any acceleration of the time of payment or vesting of any such benefits.

(b) For purposes of this Agreement, "GTE Plan" shall mean each deferred compensation, bonus or other incentive compensation, stock purchase, stock option or other equity compensation plan, program, agreement or

arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance or other "welfare" plan, fund or program (within the meaning of section 3(1) of ERISA); each profit-sharing, stock bonus or other "pension" plan, fund or program (within the meaning of section 3(2) of ERISA); each employment, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by GTE or by any GTE ERISA Affiliate or to which GTE or any GTE ERISA Affiliate is party, whether written or oral, for the benefit of any employee or former employee of GTE or any GTE ERISA Affiliate.

SECTION 4.12—*Labor Matters.* Neither GTE nor any of its Subsidiaries is the subject of any material proceeding asserting that it or any of its Subsidiaries has committed an unfair labor practice or is seeking to compel it to bargain with any labor union or labor organization nor is there pending or, to the actual knowledge of its executive officers, threatened in writing, nor has there been for the past five years, any labor strike, dispute, walkout, work stoppage, slow-down or lockout involving it or any of its Subsidiaries, except in each case as is not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on GTE.

SECTION 4.13—*Environmental Matters.* Except for such matters that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect on GTE: (i) each of GTE and its Subsidiaries has complied with all applicable Environmental Laws (as defined below); (ii) the properties currently owned or operated by it or any of its Subsidiaries (including soils, groundwater, surface water, buildings or other structures) are not contaminated with any Hazardous Substances (as defined below); (iii) the properties formerly owned or operated by it or any of its Subsidiaries were not contaminated with Hazardous Substances during the period of ownership or operation by it or any of its Subsidiaries; (iv) neither it nor any of its Subsidiaries is subject to liability for any Hazardous Substance disposal or contamination on any third party property; (v) neither it nor any Subsidiary has been associated with any release or threat of release of any Hazardous Substance; (vi) neither it nor any Subsidiary has received any notice, demand, letter, claim or request for information alleging that it or any of its Subsidiaries may be in violation of or liable under any Environmental Law (including any claims relating to electromagnetic fields or microwave transmissions); (vii) neither it nor any of its Subsidiaries is subject to any orders, decrees, injunctions or other arrangements with any Governmental Entity or is subject to any indemnity or other agreement with any third party relating to liability under any Environmental Law or relating to Hazardous Substances; and (viii) there are not circumstances or conditions involving it or any of its Subsidiaries that could reasonably be expected to result in any claims, liability, investigations, costs or restrictions on the ownership, use, or transfer of any of its properties pursuant to any Environmental Law.

As used herein and in Section 5.13, the term "Environmental Law" means any law relating to: (A) the protection, investigation or restoration of the environment, health, safety, or natural resources, (B) the handling, use, presence, disposal, release or threatened release of any Hazardous Substance or (C) noise, odor, wetlands, pollution, contamination or any injury or threat of injury to persons or property in connection with any Hazardous Substance.

As used herein and in Section 5.13, the term "Hazardous Substance" means any substance that is listed, classified or regulated pursuant to any Environmental Law, including any petroleum product or by-product, asbestos-containing material, lead-containing paint or plumbing, polychlorinated biphenyls, radioactive materials or radon.

SECTION 4.14—*Board Action; Vote Required; Applicability of Section 912.* (a) The Board of Directors of GTE has unanimously determined that the transactions contemplated by this Agreement and the Option Agreements are in the best interests of GTE and its stockholders and has resolved to recommend to such stockholders that they vote in favor thereof.

(b) The approval of the Merger Agreement by two-thirds of the votes of all outstanding shares entitled to vote thereon by all holders of GTE Common Stock is the only vote of the holders of any class or series of the

capital stock of GTE required to approve this Agreement, the Merger and the other transactions contemplated hereby. The provisions of Section 11.A of the Certificate of Incorporation of GTE will not apply to the transactions contemplated by this Agreement and the Option Agreements.

(c) The provisions of Section 912 of the NYBCL will not, assuming the accuracy of the representations contained in Section 5.20 hereof (without giving effect to the knowledge qualification therein), apply to this Agreement or any of the transactions contemplated hereby.

SECTION 4.15—*Opinions of Financial Advisors.* GTE has received the opinions of Goldman, Sachs & Co. ("Goldman Sachs"), and Salomon Smith Barney Inc. ("Salomon Smith Barney"), each dated July 27, 1998, to the effect that, as of such date, the Exchange Ratio is fair from a financial point of view to the holders of GTE Common Stock.

SECTION 4.16—*Brokers.* Except for Goldman Sachs, Salomon Smith Barney and Chase Securities Inc., the arrangements with which have been disclosed to Bell Atlantic prior to the date hereof, which have been engaged by GTE, no broker, finder or investment banker is entitled to any brokerage, finder's, investment banking or other fee or commission in connection with the transactions contemplated by this Agreement and the Option Agreements based upon arrangements made by or on behalf of GTE or any of its Subsidiaries.

SECTION 4.17—*Tax Matters.* Except as set forth in Section 4.17 of the GTE Disclosure Schedule:

(a) All material federal, state, local and foreign Tax Returns (as defined herein) required to have been filed by GTE or its Subsidiaries have been filed with the appropriate governmental authorities by the due date thereof including extensions;

(b) The Tax Returns referred to in subpart (a) of this Section 4.17 correctly and completely reflect all material Tax liabilities of GTE and its Subsidiaries required to be shown thereon;

(c) All material Taxes (as defined herein) shown as due on those Tax Returns referred to in subpart (a) of this Section 4.17 as well as any material foreign withholding Taxes imposed on or in respect of any amounts paid to or by GTE or any of its Subsidiaries, whether or not such amounts or withholding Taxes are referred to or shown on any Tax Returns referred to in Section 4.17 (a) hereof, have been fully paid or adequately reflected as a liability on GTE's or its Subsidiaries' financial statements included in the GTE SEC Reports;

(d) With respect to any period for which Tax Returns have not yet been filed, or for which Taxes are not yet due or owing, GTE and its Subsidiaries have made due and sufficient accruals for such Taxes in their respective books and records and financial statements;

(e) Neither GTE nor any of its affiliates has taken, agreed to take or omitted to take any action that would prevent or impede the Merger from qualifying as a tax-free reorganization under Section 368 of the Code;

(f) No deficiencies for any Taxes have been proposed, asserted or assessed against GTE or any of its Subsidiaries that are not adequately reserved for under GAAP, except for deficiencies that individually or in the aggregate would not have a Material Adverse Effect on GTE;

(g) GTE is not aware of any material liens for Taxes upon any assets of GTE or any of its Subsidiaries apart from liens for Taxes not yet due and payable; and

(h) As used in this Agreement, "Taxes" shall include all (x) federal, state, local or foreign income, property, sales, excise, use, occupation, service, transfer, payroll, franchise, withholding and other taxes or similar governmental charges, fees, levies or other assessments including any interest, penalties or additions with respect thereto, (y) liability for the payment of any amounts of the type described in clause (x) as a result of being a member of an affiliated, consolidated, combined or unitary group, and (z) liability for the payment of any amounts as a result of being party to any tax sharing agreement or as a result of any express or implied

obligation to indemnify any other person with respect to the payment of any amounts of the type described in clause (x) or (y). As used in this Agreement, "Tax Return" shall include any declaration, return, report, schedule, certificate, statement or other similar document (including relating or supporting information) required to be filed or, where none is required to be filed with a taxing authority, the statement or other document issued by a taxing authority in connection with any Tax, including any information return, claim for refund, amended return or declaration of estimated Tax.

SECTION 4.18—Intellectual Property; Year 2000.

(a) As used in this Agreement, "GTE Intellectual Property" means all of the following which are necessary to conduct the business of GTE and its Subsidiaries as presently conducted or as currently proposed to be conducted: (i) trademarks, trade dress, service marks, copyrights, logos, trade names, corporate names and all registrations and applications to register the same; (ii) patents and pending patent applications; (iii) all computer software programs, databases and compilations (collectively, "Computer Software"); (iv) all technology, know-how and trade secrets; and (v) all material licenses and agreements to which GTE or any of its Subsidiaries is a party which relate to any of the foregoing.

(b) GTE or its Subsidiaries owns or has the right to use, sell or license all GTE Intellectual Property, free and clear of all liens or encumbrances, and all registrations of GTE Intellectual Property are valid and enforceable and have been duly recorded and maintained, except, in each case, as would not, individually or in the aggregate, have a Material Adverse Effect on GTE.

(c) To the knowledge of GTE, the conduct of GTE's and its Subsidiaries' business and the use of the GTE Intellectual Property does not materially infringe, violate or misuse any intellectual property rights or any other proprietary right of any person or give rise to any obligations to any person as a result of co-authorship, and neither GTE nor any of its Subsidiaries has received any notice, not satisfactorily resolved, of any claims or threats that GTE's or its Subsidiaries' use of any of the GTE Intellectual Property materially infringes, violates or misuses, or is otherwise in conflict with any intellectual property or proprietary rights of any third party or that any of the GTE Intellectual Property is invalid or unenforceable that would, individually or in the aggregate, have a Material Adverse Effect on GTE.

(d) GTE and its Subsidiaries have used reasonable efforts to maintain the confidentiality of their trade secrets and other confidential GTE Intellectual Property.

(e) GTE has undertaken a concerted effort to ensure that all of the Computer Software, computer firmware, computer hardware (whether general or special purpose), and other similar or related items of automated, computerized, and/or software system(s) that are to be used or relied on by GTE or by any of its Subsidiaries in the conduct of their respective businesses will not malfunction, will not cease to function, will not generate incorrect data, and will not provide incorrect results when processing, providing and/or receiving (i) date-related data into and between the twentieth and twenty-first centuries and (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries. GTE reasonably believes that such effort will be successful.

SECTION 4.19—Insurance. Except as set forth in Section 4.19 of the GTE Disclosure Schedule, each of GTE and each of its Significant Subsidiaries is, and has been continuously since January 1, 1987 (or such later date as such Significant Subsidiary was organized or acquired by GTE), insured with financially responsible insurers in such amounts and against such risks and losses as are customary for companies conducting the business as conducted by GTE and its Subsidiaries during such time period. Except as set forth in Section 4.19 of the GTE Disclosure Schedule, since January 1, 1995, neither GTE nor any of its Subsidiaries has received notice of cancellation or termination with respect to any material insurance policy of GTE or its Subsidiaries. The insurance policies of GTE and its Subsidiaries are valid and enforceable policies.

SECTION 4.20—Ownership of Securities. As of the date hereof, neither GTE nor, to GTE's knowledge, any of its affiliates or associates (as such terms are defined under the Exchange Act), (i) beneficially owns,

directly or indirectly, or (ii) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, shares of capital stock of Bell Atlantic, which in the aggregate represent 10% or more of the outstanding shares of Bell Atlantic Common Stock (other than shares held by GTE Plans and the Bell Atlantic Option Agreement).

SECTION 4.21—Certain Contracts. (a) All contracts described in Item 601(b)(10) of Regulation S-K to which GTE or its Subsidiaries is a party or may be bound ("GTE Contracts") have been filed as exhibits to, or incorporated by reference in, GTE's Annual Report on Form 10-K for the year ended December 31, 1997. All GTE Contracts are valid and in full force and effect on the date hereof except to the extent they have previously expired in accordance with their terms or if the failure to be in full force and effect, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect on GTE. Neither GTE nor any of its Subsidiaries has violated any provision of, or committed or failed to perform any act which with or without notice, lapse of time or both would constitute a default under the provisions of, any GTE Contract, except in each case for those GTE Contracts which, individually and in the aggregate, would not reasonably be expected to result in a Material Adverse Effect on GTE.

(b) Set forth in Section 4.21 of the GTE Disclosure Schedule is a list of each contract, agreement or arrangement to which GTE or any of its Subsidiaries is a party or may be bound which is an arrangement limiting or restraining Bell Atlantic, GTE, any Bell Atlantic or GTE Subsidiary or any successor thereto from engaging or competing in any business which has, or could reasonably be expected to have in the foreseeable future, a Material Adverse Effect on GTE, or to GTE's knowledge, on Bell Atlantic.

SECTION 4.22—Rights Agreement. (a) Neither Bell Atlantic nor Merger Subsidiary shall be deemed to be an Acquiring Person (as such term is defined in the Rights Agreement) and the Distribution Date (as defined in the Rights Agreement) shall not be deemed to occur and the Rights will not separate from GTE Common Stock, as a result of entering into this Agreement or the Option Agreements or consummating the Merger and/or the other transactions contemplated hereby or thereby.

(b) GTE has taken all necessary action with respect to all of the outstanding Rights (as defined in the Rights Agreement) so that, as of immediately prior to the Effective Time, as a result of entering into this Agreement or consummating the Merger and/or the other transactions contemplated by this Agreement and the Option Agreements, (i) neither GTE nor Bell Atlantic will have any obligations under the Rights or the Rights Agreement and (ii) the holders of the Rights will have no rights under the Rights or the Rights Agreement.

ARTICLE V—REPRESENTATIONS AND WARRANTIES OF BELL ATLANTIC

Except as expressly disclosed in the Bell Atlantic Filed SEC Reports (as defined below) (including all exhibits referred to therein) or as set forth in the disclosure schedule delivered by Bell Atlantic to GTE on the date hereof (the "Bell Atlantic Disclosure Schedule" and together with the GTE Disclosure Schedule, the "Disclosure Schedules") (each section of which qualifies the correspondingly numbered representation and warranty or covenant as specified therein), Bell Atlantic hereby represents and warrants to GTE as follows:

SECTION 5.1—Organization and Qualification; Subsidiaries. Each of Bell Atlantic and each of its Significant Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each of the Bell Atlantic Subsidiaries which is not a Significant Subsidiary is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, except for such failure which, when taken together with all other such failures, would not reasonably be expected to have a Material Adverse Effect on Bell Atlantic. Each of Bell Atlantic and its Subsidiaries has the requisite corporate power and authority and any necessary governmental authority, franchise, license or permit to own, operate or lease the properties that it purports to own, operate or lease and to carry on its business as it is now being conducted, and is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned, operated or

leased or the nature of its activities makes such qualification necessary, except for such failure which, when taken together with all other such failures, would not reasonably be expected to have a Material Adverse Effect on Bell Atlantic.

SECTION 5.2—Certificate of Incorporation and Bylaws. Bell Atlantic has heretofore furnished, or otherwise made available, to GTE a complete and correct copy of the Certificate of Incorporation and the Bylaws, each as amended to the date hereof, of Bell Atlantic. Such Certificate of Incorporation and Bylaws are in full force and effect. Neither Bell Atlantic nor any of its Significant Subsidiaries is in violation of any of the provisions of its respective Certificate of Incorporation or, in any material respect, its Bylaws.

SECTION 5.3—Capitalization. (a) The authorized capital stock of Bell Atlantic consists of (i) 250,000,000 shares of Series A Preferred Stock, par value \$.10 per share, none of which are outstanding or reserved for issuance, and (ii) 2,250,000,000 shares of Bell Atlantic Common Stock, of which, as of June 30, 1998, (A) 1,553,473,710 shares were issued and outstanding, (B) 22,722,614 shares were held in the treasury of Bell Atlantic and (C) 80,392,512 shares were issuable upon the exercise of options outstanding under the Bell Atlantic option plans listed in Section 5.3 of the Bell Atlantic Disclosure Schedule. Except for Bell Atlantic Equity Rights issued to Bell Atlantic employees in the ordinary course of business or, after the date hereof, as permitted by Section 6.2 hereof or pursuant to the Bell Atlantic Option Agreement, (i) since June 30, 1998, no shares of Bell Atlantic Common Stock have been issued, except upon the exercise of options and rights described in the immediately preceding sentence, and (ii) there are no outstanding Bell Atlantic Equity Rights. For purposes of this Agreement, "Bell Atlantic Equity Rights" shall mean subscriptions, options, warrants, calls, commitments, agreements, conversion rights or other rights of any character (contingent or otherwise) to purchase or otherwise acquire, any shares of the capital stock of Bell Atlantic from Bell Atlantic or any of Bell Atlantic's Subsidiaries at any time, or upon the happening of any stated event, excluding the GTE Stock Option. Section 5.3 of the Bell Atlantic Disclosure Schedule sets forth a complete and accurate list of certain information with respect to all outstanding Bell Atlantic Equity Rights as of June 30, 1998.

(b) Except as set forth in Section 5.3 of the Bell Atlantic Disclosure Schedule, pursuant to the GTE Stock Option or, after the date hereof, as permitted by Section 6.2 hereof, there are no outstanding obligations of Bell Atlantic or any of Bell Atlantic's Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of Bell Atlantic.

(c) All of the issued and outstanding shares of Bell Atlantic Common Stock are validly issued, fully paid and nonassessable.

(d) All of the outstanding capital stock of each of Bell Atlantic's Significant Subsidiaries, and all of the outstanding capital stock of Bell Atlantic's Subsidiaries owned directly or indirectly by Bell Atlantic, is duly authorized, validly issued, fully paid and nonassessable. All of the outstanding capital stock of each of Bell Atlantic's Significant Subsidiaries is owned by Bell Atlantic free and clear of any liens, security interests, pledges, agreements, claims, charges or encumbrances. All of the outstanding capital stock of Bell Atlantic's Subsidiaries owned directly or indirectly by Bell Atlantic is owned free and clear of any liens, security interests, pledges, agreements, claims, charges or encumbrances, except where such liens, security interests, pledges, agreements, claims, charges or encumbrances would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic. Except as hereafter issued or entered into in accordance with Section 6.2 hereof, there are no existing subscriptions, options, warrants, calls, commitments, agreements, conversion rights or other rights of any character (contingent or otherwise) to purchase or otherwise acquire from Bell Atlantic or any of Bell Atlantic's Subsidiaries at any time, or upon the happening of any stated event, any shares of the capital stock of any Bell Atlantic Subsidiary, whether or not presently issued or outstanding (except for rights of first refusal to purchase interests in Subsidiaries which are not wholly owned by Bell Atlantic), or any of GTE's direct or indirect interests in any Material Investment, and there are no outstanding obligations of Bell Atlantic or any of Bell Atlantic's Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of any of Bell Atlantic's Subsidiaries or securities related to any investments, other than such as would not, individually or in the aggregate, have a Material Adverse Effect on GTE.

SECTION 5.4—*Authority Relative to this Agreement.* Bell Atlantic has the necessary corporate power and authority to enter into this Agreement and, subject to obtaining the requisite stockholder approval of the issuance (the "Stock Issuance") of Bell Atlantic Common Stock pursuant to the Merger Agreement and the Certificate Amendment (collectively, the "Bell Atlantic Stockholder Approval"), to perform its obligations hereunder. The execution and delivery of this Agreement by Bell Atlantic and the consummation by Bell Atlantic of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Bell Atlantic, subject to obtaining the Bell Atlantic Stockholder Approval. This Agreement has been duly executed and delivered by Bell Atlantic and, assuming the due authorization, execution and delivery thereof by the other Parties, constitutes a legal, valid and binding obligation of Bell Atlantic, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the rights and remedies of creditors generally and to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

SECTION 5.5—*No Conflict; Required Filings and Consents.* (a) Except as described in subsection (b) below, the execution and delivery of this Agreement by Bell Atlantic do not, and the performance of this Agreement by Bell Atlantic will not, (i) violate or conflict with the Certificate of Incorporation or Bylaws of Bell Atlantic, (ii) conflict with or violate any law, regulation, court order, judgment or decree applicable to Bell Atlantic or any of its Subsidiaries or by which any of their respective property or assets (including investments) is bound or affected, (iii) violate or conflict with the Certificate of Incorporation or Bylaws of any of Bell Atlantic's Subsidiaries, or (iv) result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination or cancellation of, or result in the creation of a lien or encumbrance on any of the properties or assets (including investments) of Bell Atlantic or any of its Subsidiaries pursuant to, result in the loss of any material benefit under, or result in any modification or alteration of, or require the consent of any other party to, any contract, instrument, permit, license or franchise to which Bell Atlantic or any of its Subsidiaries is a party or by which Bell Atlantic, any of such Subsidiaries or any of their respective property or assets (including investments) is bound or affected, except, in the case of clauses (ii), (iii) and (iv) above, for conflicts, violations, breaches, defaults, results or consents which, individually or in the aggregate, would not have a Material Adverse Effect on Bell Atlantic.

(b) Except for applicable requirements, if any, of state or foreign public utility commissions or laws or similar local or state foreign regulatory bodies or laws, state or foreign antitrust or foreign investment laws and commissions, the Federal Communications Commission, stock exchanges upon which the securities of Bell Atlantic are listed, the Exchange Act, the premerger notification requirements of the HSR Act, filing and recordation of appropriate merger or other documents as required by the NYBCL and any filings required pursuant to any state securities or "blue sky" laws or the rules of any applicable stock exchanges, (i) neither Bell Atlantic nor any of its Significant Subsidiaries is required to submit any notice, report or other filing with any Governmental Entity in connection with the execution, delivery or performance of this Agreement and (ii) no waiver, consent, approval or authorization of any Governmental Entity is required to be obtained by Bell Atlantic or any of its Significant Subsidiaries in connection with its execution, delivery or performance of this Agreement.

SECTION 5.6—*SEC Filings; Financial Statements.* (a) Bell Atlantic has filed all forms, reports and documents required to be filed with the SEC since January 1, 1995, and has heretofore delivered or made available to GTE, in the form filed with the SEC, together with any amendments thereto, its (i) Annual Reports on Form 10-K for the fiscal years ended December 31, 1995, 1996 and 1997, (ii) all proxy statements relating to Bell Atlantic's meetings of stockholders (whether annual or special) held since January 1, 1995, (iii) Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1998, and (iv) all other reports or registration statements filed by Bell Atlantic with the SEC since January 1, 1995, including without limitation all Annual Reports on Form 10-K filed with respect to the Bell Atlantic Plans (collectively, the "Bell Atlantic SEC Reports", with such Bell Atlantic SEC Reports filed with the SEC prior to the date hereof being referred to as "Bell Atlantic Filed SEC Reports"). The Bell Atlantic SEC Reports (i) were prepared substantially in

accordance with the requirements of the 1933 Act or the Exchange Act, as the case may be, and the rules and regulations promulgated under each of such respective acts, and (ii) did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements, including all related notes and schedules, contained in the Bell Atlantic SEC Reports (or incorporated by reference therein) fairly present the consolidated financial position of Bell Atlantic and its Subsidiaries as at the respective dates thereof and the consolidated results of operations and cash flows of Bell Atlantic and its Subsidiaries for the periods indicated in accordance with GAAP applied on a consistent basis throughout the periods involved (except for changes in accounting principles disclosed in the notes thereto) and subject in the case of interim financial statements to normal year-end adjustments.

SECTION 5.7—Absence of Certain Changes or Events. Except as disclosed in the Bell Atlantic Filed SEC Reports and in Section 5.7 of the Bell Atlantic Disclosure Schedule, since December 31, 1997, and except as permitted by this Agreement or consented to hereunder, Bell Atlantic and its Subsidiaries have not incurred any material liability required to be disclosed on a balance sheet of Bell Atlantic and its Subsidiaries or the footnotes thereto prepared in conformity with GAAP, except in the ordinary course of their businesses consistent with their past practices, and there has not been any change, or any event involving a prospective change, in the business, financial condition or results of operations of Bell Atlantic or any of its Subsidiaries which has had, or is reasonably likely to have, a Material Adverse Effect on Bell Atlantic, and Bell Atlantic and its Subsidiaries have conducted their respective businesses in the ordinary course consistent with their past practices.

SECTION 5.8—Litigation. There are no claims, actions, suits, proceedings or investigations pending or, to Bell Atlantic's knowledge, threatened against Bell Atlantic or any of its Subsidiaries, or any properties or rights of Bell Atlantic or any of its Subsidiaries, by or before any Governmental Entity, except for those that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on Bell Atlantic or prevent, materially delay or intentionally delay the ability of GTE to consummate the transactions contemplated hereby.

SECTION 5.9—Permits: No Violation of Law. The businesses of Bell Atlantic and its Subsidiaries are not being conducted in violation of any Legal Requirements or in violation of any Permits, except for possible violations none of which, individually or in the aggregate, may reasonably be expected to have a Material Adverse Effect on Bell Atlantic. No investigation or review by any Governmental Entity (including any stock exchange or other self-regulatory body) with respect to Bell Atlantic or its Subsidiaries in relation to any alleged violation of law or regulation is pending or, to Bell Atlantic's knowledge, threatened, nor has any Governmental Entity (including any stock exchange or other self-regulatory body) indicated an intention to conduct the same, except for such investigations which, if they resulted in adverse findings, would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Bell Atlantic. Except as set forth in Section 5.9 of the Bell Atlantic Disclosure Schedule, neither Bell Atlantic nor any of its Subsidiaries is subject to any cease and desist or other order, judgment, injunction or decree issued by, or is a party to any written Agreement, consent Agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has adopted any board resolutions at the request of, any Governmental Entity that materially restricts the conduct of its business or which may reasonably be expected to have a Material Adverse Effect on Bell Atlantic, nor has Bell Atlantic or any of its Subsidiaries been advised that any Governmental Entity is considering issuing or requesting any of the foregoing. None of the representations and warranties made in this Section 5.9 are being made with respect to Environmental Laws.

SECTION 5.10—Joint Proxy Statement. None of the information supplied or to be supplied by or on behalf of Bell Atlantic for inclusion or incorporation by reference in the Registration Statement will, at the time the Registration Statement becomes effective under the 1933 Act, contain any untrue statement of a material

fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. None of the information supplied or to be supplied by or on behalf of Bell Atlantic for inclusion or incorporation by reference in the Joint Proxy Statement will, at the dates mailed to stockholders and at the times of the GTE stockholders' meeting and the Bell Atlantic stockholders' meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Registration Statement and the Joint Proxy Statement (except for information relating solely to GTE) will comply as to form in all material respects with the provisions of the 1933 Act and the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 5.11—*Employee Matters; ERISA.* (a) Except where the failure to be true would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic, (i) each Bell Atlantic Plan has been operated and administered in accordance with applicable law, including but not limited to ERISA and the Code, (ii) each Bell Atlantic Plan intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified, (iii) except as required by COBRA, no Bell Atlantic Plan provides death or medical benefits (whether or not insured), with respect to current or former employees of Bell Atlantic or of any trade or business, whether or not incorporated, which together with Bell Atlantic would be deemed a "single employer" within the meaning of Section 4001 of ERISA (a "Bell Atlantic ERISA Affiliate"), beyond their retirement or other termination of service, (iv) no liability under Title IV of ERISA has been incurred by Bell Atlantic or any Bell Atlantic ERISA Affiliate that has not been satisfied in full, and no condition exists that presents a material risk to Bell Atlantic or any Bell Atlantic ERISA Affiliate of incurring any such liability (other than PBGC premiums), (v) all contributions or other amounts due from Bell Atlantic or any Bell Atlantic ERISA Affiliate with respect to each Bell Atlantic Plan have been paid in full, (vi) neither Bell Atlantic nor any Bell Atlantic ERISA Affiliate has engaged in a transaction in connection with which Bell Atlantic or any of its Subsidiaries could reasonably be expected to be subject to either a civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 or 4976 of the Code, (vii) to the best knowledge of Bell Atlantic there are no pending, threatened or anticipated claims (other than routine claims for benefits) by, on behalf of or against any Bell Atlantic Plan or any trusts related thereto, and (viii) neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (A) result in any payment (including, without limitation, severance, unemployment compensation, golden parachute or otherwise) becoming due to any director or any employee of Bell Atlantic or any of its Subsidiaries under any Bell Atlantic Plan or otherwise, (B) materially increase any benefits otherwise payable under any Bell Atlantic Plan G or (C) result in any acceleration of the time of payment or vesting of any such benefits.

(b) For purposes of this Agreement, "Bell Atlantic Plan" shall mean each deferred compensation, bonus or other incentive compensation, stock purchase, stock option or other equity compensation plan, program, agreement or arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance or other "welfare" plan, fund or program (within the meaning of section 3(1) of ERISA); each profit-sharing, stock bonus or other "pension" plan, fund or program (within the meaning of section 3(2) of ERISA); each employment, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by Bell Atlantic or by any Bell Atlantic ERISA Affiliate or to which Bell Atlantic or any Bell Atlantic ERISA Affiliate is party, whether written or oral, for the benefit of any employee or former employee of Bell Atlantic or any Bell Atlantic ERISA Affiliate.

SECTION 5.12—*Labor Matters.* Neither Bell Atlantic nor any of its Subsidiaries is the subject of any material proceeding asserting that it or any of its Subsidiaries has committed an unfair labor practice or is seeking to compel it to bargain with any labor union or labor organization nor is there pending or, to the actual knowledge of its executive officers, threatened in writing, nor has there been for the past five years, any labor strike, dispute, walkout, work stoppage, slow-down or lockout involving it or any of its Subsidiaries, except

in each case as is not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on Bell Atlantic.

SECTION 5.13—*Environmental Matters.* Except for such matters that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect on Bell Atlantic: (i) each of Bell Atlantic and its Subsidiaries has complied with all applicable Environmental Laws (as defined below); (ii) the properties currently owned or operated by it or any of its Subsidiaries (including soils, groundwater, surface water, buildings or other structures) are not contaminated with any Hazardous Substances (as defined below); (iii) the properties formerly owned or operated by it or any of its Subsidiaries were not contaminated with Hazardous Substances during the period of ownership or operation by it or any of its Subsidiaries; (iv) neither it nor any of its Subsidiaries is subject to liability for any Hazardous Substance disposal or contamination on any third party property; (v) neither it nor any Subsidiary has been associated with any release or threat of release of any Hazardous Substance; (vi) neither it nor any Subsidiary has received any notice, demand, letter, claim or request for information alleging that it or any of its Subsidiaries may be in violation of or liable under any Environmental Law (including any claims relating to electromagnetic fields or microwave transmissions); (vii) neither it nor any of its Subsidiaries is subject to any orders, decrees, injunctions or other arrangements with any Governmental Entity or is subject to any indemnity or other agreement with any third party relating to liability under any Environmental Law or relating to Hazardous Substances; and (viii) there are not circumstances or conditions involving it or any of its Subsidiaries that could reasonably be expected to result in any claims, liability, investigations, costs or restrictions on the ownership, use, or transfer of any of its properties pursuant to any Environmental Law.

No representation is made by Bell Atlantic in this Section 5.13 for which neither Bell Atlantic nor any of its Subsidiaries is (or would be, if a claim were brought in a formal proceeding) a named defendant, but as to which Bell Atlantic or any of its Subsidiaries may be liable for an allocable share of any judgment rendered pursuant to the POR. No representation is made by Bell Atlantic in subsection (i) of this Section 5.13 as to properties owned, leased or operated by AT&T or any of its Subsidiaries except for such properties which are, or at any time since November 1, 1983 were, owned, leased or operated by Bell Atlantic or any of its Subsidiaries.

SECTION 5.14—*Board Action; Vote Required.* (a) The Board of Directors of Bell Atlantic has unanimously determined that the transactions contemplated by this Agreement and the Option Agreements are in the best interests of Bell Atlantic and its stockholders and has resolved to recommend to such stockholders that they vote in favor thereof.

(b) The approval of the Certificate Amendment by a majority of the votes entitled to be cast by all holders of Bell Atlantic Common Stock and the approval of the Stock Issuance pursuant thereto by a majority of the votes cast thereon, provided that the total votes cast thereon represents over 50% in interest of all securities of Bell Atlantic entitled to vote thereon, are the only votes of the holders of any class or series of the capital stock of Bell Atlantic required to approve this Agreement, the Merger, the Certificate Amendment, the Stock Issuance and the other transactions contemplated hereby.

SECTION 5.15—*Opinions of Financial Advisors.* Bell Atlantic has received the opinions of Bear, Stearns & Co. Inc. ("Bear Stearns") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), each dated July 27, 1998, to the effect that, as of such date, the Exchange Ratio is fair from a financial point of view to the holders of Bell Atlantic Common Stock.

SECTION 5.16—*Brokers.* Except for Bear Stearns, Merrill Lynch and Morgan Stanley Dean Witter, the arrangements with which have been disclosed to GTE prior to the date hereof, which have been engaged by Bell Atlantic, no broker, finder or investment banker is entitled to any brokerage, finder's, investment banking or other fee or commission in connection with the transactions contemplated by this Agreement and the Option Agreements based upon arrangements made by or on behalf of Bell Atlantic or any of its Subsidiaries.

SECTION 5.17—*Tax Matters.* Except as set forth in Section 5.17 of the Bell Atlantic Disclosure Schedule:

(a) All material federal, state, local and foreign Tax Returns required to have been filed by Bell Atlantic or its Subsidiaries have been filed with the appropriate governmental authorities by the due date thereof including extensions;

(b) The Tax Returns referred to in subpart (a) of this Section 5.17 correctly and completely reflect all material Tax liabilities of Bell Atlantic and its Subsidiaries required to be shown thereon;

(c) All material Taxes shown as due on those Tax Returns referred to in subpart (a) of this Section 5.17, as well as any material foreign withholding Taxes imposed on or in respect of any amounts paid to or by Bell Atlantic or any of its Subsidiaries, whether or not such amounts or withholding Taxes are referred to or shown on any Tax Returns referred to in Section 5.17 (a) hereof, have been fully paid or adequately reflected as a liability on Bell Atlantic's or its Subsidiaries' financial statements included in the Bell Atlantic SEC Reports;

(d) With respect to any prior period for which Tax Returns have not yet been filed, or for which Taxes are not yet due or owing, Bell Atlantic and its Subsidiaries have made due and sufficient accruals for such Taxes in their respective books and records and financial statements;

(e) Neither Bell Atlantic nor any of its affiliates has taken, agreed to take or omitted to take any action that would prevent or impede the Merger from qualifying as a tax-free reorganization under Section 368 of the Code;

(f) No deficiencies for any Taxes have been proposed, asserted or assessed against Bell Atlantic or any of its Subsidiaries that are not adequately reserved for under GAAP, except for deficiencies that individually or in the aggregate would not have a Material Adverse Effect on Bell Atlantic; and

(g) Bell Atlantic is not aware of any material liens for Taxes upon any assets of Bell Atlantic or any of its Subsidiaries apart from liens for Taxes not yet due and payable.

SECTION 5.18—*Intellectual Property.*

(a) As used in this Agreement, "Bell Atlantic Intellectual Property" means all of the following which are necessary to conduct the business of Bell Atlantic and its Subsidiaries as presently conducted or as currently proposed to be conducted: (i) trademarks, trade dress, service marks, copyrights, logos, trade names, corporate names and all registrations and applications to register the same; (ii) patents and pending patent applications; (iii) Computer Software; (iv) all technology, know-how and trade secrets; and (v) all material licenses and agreements to which Bell Atlantic or any of its Subsidiaries is a party which relate to any of the foregoing.

(b) Bell Atlantic or its Subsidiaries owns or has the right to use, sell or license all Bell Atlantic Intellectual Property, free and clear of all liens or encumbrances, and all registrations of Bell Atlantic Intellectual Property are valid and enforceable and have been duly recorded and maintained, except, in each case, as would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic.

(c) To the knowledge of Bell Atlantic, the conduct of Bell Atlantic's and its Subsidiaries' business and the use of the Bell Atlantic Intellectual Property does not materially infringe, violate or misuse any intellectual property rights or any other proprietary right of any person or give rise to any obligations to any person as a result of co-authorship, and neither Bell Atlantic nor any of its Subsidiaries has received any notice, not satisfactorily resolved, of any claims or threats that Bell Atlantic's or its Subsidiaries' use of any of the Bell Atlantic Intellectual Property materially infringes, violates or misuses, or is otherwise in conflict with any intellectual property or proprietary rights of any third party or that any of the Bell Atlantic Intellectual Property is invalid or unenforceable that would, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic.

(d) Bell Atlantic and its Subsidiaries have used reasonable efforts to maintain the confidentiality of their trade secrets and other confidential Bell Atlantic Intellectual Property.

(e) Bell Atlantic has undertaken a concerted effort to ensure that all of the Computer Software, computer firmware, computer hardware (whether general or special-purpose), and other similar or related items of automated, computerized, and/or software system(s) that are to be used or relied on by Bell Atlantic or by any of its Subsidiaries in the conduct of their respective businesses will not malfunction, will not cease to function, will not generate incorrect data, and will not provide incorrect results when processing, providing and/or receiving (i) date-related data into and between the twentieth and twenty-first centuries and (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries. Bell Atlantic reasonably believes that such effort will be successful.

SECTION 5.19—Insurance. Except as set forth in Section 5.19 of the Bell Atlantic Disclosure Schedule, each of Bell Atlantic and each of its Significant Subsidiaries is, and has been continuously since January 1, 1987 (or such later date as such Significant Subsidiary was organized or acquired by Bell Atlantic), insured with financially responsible insurers in such amounts and against such risks and losses as are customary for companies conducting the business as conducted by Bell Atlantic and its Subsidiaries during such time period. Except as set forth in Section 5.19 of the Bell Atlantic Disclosure Schedule, since January 1, 1995, neither Bell Atlantic nor any of its Subsidiaries has received notice of cancellation or termination with respect to any material insurance policy of Bell Atlantic or its Subsidiaries. The insurance policies of Bell Atlantic and its Subsidiaries are valid and enforceable policies.

SECTION 5.20—Ownership of Securities. As of the date hereof, neither Bell Atlantic nor, to Bell Atlantic's knowledge, any of its affiliates or associates (as such terms are defined under the Exchange Act), (a) (i) beneficially owns, directly or indirectly, or (ii) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, shares of capital stock of GTE, which in the aggregate represent 10% or more of the outstanding shares of GTE Common Stock (other than shares held by Bell Atlantic Plans and the GTE Option Agreement), nor (b) is an "interested stockholder" of GTE within the meaning of Section 912 of the NYBCL. Except as set forth in Section 5.20 of the Bell Atlantic Disclosure Schedule, Bell Atlantic owns no shares of GTE Common Stock described in the parenthetical clause of Section 2.2 (a) hereof which would be canceled and retired without consideration pursuant to Section 2.3 (a) hereof.

SECTION 5.21—Certain Contracts. (a) All contracts described in Item 601(b)(10) of Regulation S-K to which Bell Atlantic or its Subsidiaries is a party or may be bound ("Bell Atlantic Contracts") have been filed as exhibits to, or incorporated by reference in, Bell Atlantic's Annual Report on Form 10-K for the year ended December 31, 1997. All Bell Atlantic Contracts are valid and in full force and effect on the date hereof except to the extent they have previously expired in accordance with their terms or if the failure to be in full force and effect, individually and in the aggregate would not reasonably be expected to have a Material Adverse Effect on Bell Atlantic. Neither Bell Atlantic nor any of its Subsidiaries has violated any provision of, or committed or failed to perform any act which with or without notice, lapse of time or both would constitute a default under the provisions of, any Bell Atlantic Contract, except in each case for those Bell Atlantic Contracts which, individually and in the aggregate, would not reasonably be expected to result in a Material Adverse Effect on Bell Atlantic.

(b) Set forth in Section 5.21 of the Bell Atlantic Disclosure Schedule is a list of each contract, agreement or arrangement to which Bell Atlantic or any of its Subsidiaries is a party or may be bound which is an arrangement limiting or restraining Bell Atlantic, GTE, any Bell Atlantic or GTE Subsidiary or any successor thereto from engaging or competing in any business which has, or could reasonably be expected to have in the foreseeable future, a Material Adverse Effect on Bell Atlantic or, to Bell Atlantic's knowledge, on GTE.

SECTION 5.22—*Merger Subsidiary.* Bell Atlantic and Merger Subsidiary represent and warrant to GTE as follows:

(a) *Organization and Corporate Power.* Merger Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of the State of New York. Merger Subsidiary is a direct, wholly owned subsidiary of Bell Atlantic.

(b) *Corporate Authorization.* Merger Subsidiary has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Merger Subsidiary of this Agreement and the consummation by Merger Subsidiary of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Merger Subsidiary. This Agreement has been duly executed and delivered by Merger Subsidiary and constitutes a valid and binding agreement of Merger Subsidiary, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally, by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(c) *Non Contravention.* The execution, delivery and performance by Merger Subsidiary of this Agreement and the consummation by Merger Subsidiary of the transactions contemplated hereby do not and will not contravene or conflict with the certificate of incorporation or by-laws of Merger Subsidiary.

(d) *No Business Activities.* Merger Subsidiary has not conducted any activities other than in connection with the organization of Merger Subsidiary, the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby. Merger Subsidiary has no Subsidiaries.

ARTICLE VI—CONDUCT OF BUSINESSES PENDING THE MERGER

SECTION 6.1—*Transition Planning.* Ivan G. Seidenberg and Charles R. Lee, as Chief Executive Officers of Bell Atlantic and GTE, respectively, jointly shall be responsible for coordinating all aspects of transition planning and implementation relating to the Merger and the other transactions contemplated hereby. If either such person ceases to be Chief Executive Officer of his respective company for any reason, such person's successor as Chief Executive Officer shall assume his predecessor's responsibilities under this Section 6.1. During the period between the date hereof and the Effective Time, Messrs. Seidenberg and Lee jointly shall (i) examine various alternatives regarding the manner in which to best organize and manage the businesses of Bell Atlantic and GTE after the Effective Time, and (ii) coordinate policies and strategies with respect to regulatory authorities and bodies, in all cases subject to applicable law.

SECTION 6.2—*Conduct of Business in the Ordinary Course.* Each of GTE and Bell Atlantic covenants and agrees that, subject to the provisions of Sections 7.16 and 7.17 hereof, between the date hereof and the Effective Time, unless the other shall otherwise consent in writing, and except as described in Section 6.2 of the Disclosure Schedules or as otherwise expressly contemplated hereby, the business of such Party and its Subsidiaries shall be conducted only in, and such entities shall not take any action except in, the ordinary course of business and in a manner consistent with past practice; and each of GTE and Bell Atlantic and their respective Subsidiaries will use their commercially reasonable efforts to preserve substantially intact their business organizations, to keep available the services of those of their present officers, employees and consultants who are integral to the operation of their businesses as presently conducted and to preserve their present relationships with significant customers and suppliers and with other persons with whom they have significant business relations. By way of amplification and not limitation, except as set forth in Section 6.2 of the Disclosure Schedules or as otherwise expressly contemplated by this Agreement and the Option Agreements, and subject to the provisions of Sections 7.16 and 7.17, each of GTE and Bell Atlantic agrees on

behalf of itself and its Subsidiaries that they will not, between the date hereof and the Effective Time, directly or indirectly, do any of the following without the prior written consent of the other:

(a) (i) except for (A) the issuance of shares of GTE Common Stock and Bell Atlantic Common Stock in order to satisfy obligations under the GTE Plans and Bell Atlantic Plans in effect on the date hereof and Bell Atlantic Equity Rights or GTE Equity Rights issued thereunder and under existing dividend reinvestment plans, which issuances shall be consistent with its existing policy and past practice; (B) grants of stock options with respect to GTE Common Stock or Bell Atlantic Common Stock to employees in the ordinary course of business and in amounts and in a manner consistent with past practice; and (C) the issuance of securities by a Subsidiary to any person which is directly or indirectly wholly owned by GTE or Bell Atlantic (as the case may be); issue, sell, pledge, dispose of, encumber, authorize, or propose the issuance, sale, pledge, disposition, encumbrance or authorization of any shares of capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of capital stock of, or any other ownership interest in, such Party or any of its Subsidiaries (excluding such as may arise upon the exercise of existing rights); (ii) amend or propose to amend the Certificate of Incorporation or Bylaws of such Party (other than by Bell Atlantic as contemplated hereby) or any of its Subsidiaries (other than wholly owned Subsidiaries) or adopt, amend or propose to amend any shareholder rights plan or related rights agreement; (iii) split, combine or reclassify any outstanding shares of GTE Common Stock and Bell Atlantic Common Stock, or declare, set aside or pay any dividend or distribution payable in cash, stock, property or otherwise with respect to shares of GTE Common Stock and Bell Atlantic Common Stock, except for cash dividends to stockholders of GTE and Bell Atlantic declared in accordance with existing dividend policy payable to stockholders of record on the record dates consistently used in prior periods; (iv) redeem, purchase or otherwise acquire or offer to redeem, purchase or otherwise acquire any shares of its capital stock, except that each of GTE and Bell Atlantic shall be permitted to acquire shares of GTE Common Stock or Bell Atlantic Common Stock, as the case may be, from time to time in open market transactions, consistent with past practice and in compliance with applicable law and the provisions of any applicable employee benefit plan, program or arrangement, for issuance upon the exercise of options and other rights granted, and the lapsing of restrictions, under such Party's respective employee benefit plans, programs and arrangements and dividend reinvestment plans; or (v) authorize or propose or enter into any contract, agreement, commitment or arrangement with respect to any of the matters prohibited by this Section 6.2 (a);

(b) (i) acquire (by merger, consolidation, or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof or make any investment in another entity (other than an entity which is a wholly owned Subsidiary of such Party as of the date hereof and other than incorporation of a wholly owned Subsidiary), except for acquisitions or investments which do not exceed \$500,000,000 in the aggregate for all such acquisitions or investments in any 12-month period; (ii) except in the ordinary course of business and in a manner consistent with past practice, sell, pledge, dispose of, or encumber or authorize or propose the sale, pledge, disposition or encumbrance of any assets of such Party or any of its Subsidiaries, except for transactions which do not exceed \$500,000,000 in the aggregate in any 12-month period and provided further that, unless and until it is mutually determined that pooling of interests accounting is not available for the Merger, no Party shall make any dispositions in excess of an aggregate of \$100,000,000, except for those dispositions that the management of either party has determined, with the concurrence of its independent accountants, to be either in the ordinary course of business or not in contemplation of the Merger, and therefore not a disposition to be measured, individually and in the aggregate with other dispositions, for material disposition of asset purposes, as required by Accounting Principals Bulletin No. 16 and the authoritative interpretations thereto; or (iii) authorize, enter into or amend any contract, agreement, commitment or arrangement with respect to any of the matters prohibited by this Section 6.2(b);

(c) incur indebtedness if, following the taking of such action, it is reasonably anticipated that such Party's outstanding senior indebtedness would be rated by Standard & Poor's at lower than A-, in the case of GTE, or at lower than A, in the case of Bell Atlantic.

(d) enter into (i) leveraged derivative contracts (defined as contracts that use a factor to multiply the underlying index exposure) or (ii) other derivative contracts except for the purpose of hedging known interest rate and foreign exchange exposures or otherwise reducing such Party's cost of financing;

(e) take any action with respect to the grant of any severance or termination pay, stay bonus, or other incentive arrangements (otherwise than pursuant to any GTE Plan, Bell Atlantic Plan (collectively with all GTE Plans, "Benefit Plans") or any policies, arrangements and agreements of such Party which were in effect on, or offered or approved to be offered by the board of directors or senior management of the respective Party prior to, the date hereof, or pursuant to any renewal or extension subsequent to the date hereof of the duration of the term of any such Benefit Plans, policies, arrangements or agreements), or with respect to any increase in benefits payable under its severance or termination pay policies, or stay bonus or other incentive arrangements in effect on the date hereof;

provided, however, that this subsection shall not prohibit GTE or Bell Atlantic or their respective subsidiaries from taking any actions whatsoever that are described in this Section 6.2(e) if (i) such actions are not Merger-related and are in amounts not materially greater than past practice or as otherwise required by Legal Requirements or applicable provisions of the plan, policy or arrangement, and the Party taking such action consults with the other Party (where such consultation is reasonable and practicable) reasonably in advance of any such action, or (ii) such actions are Merger-related, are taken to meet business needs, are consistent with competitive market practices of large data transmission or telecommunications companies, and the other Party gives its consent to such actions (such consent not to be unreasonably withheld after being consulted by the Party proposing such action (where such consultation is reasonable and practicable) reasonably in advance of any such action);

provided, further, that on and after the date hereof, each of GTE and Bell Atlantic will use its best efforts in good faith to develop and adopt within 60 days of the date hereof, in concert with the other, a common set of principles and guidelines for the design and implementation of merger-related retention incentives and severance benefits for the purpose of enabling the respective companies to implement complementary plans, programs and arrangements, utilizing best competitive practices which each believes will facilitate the convergence of the benefits and employment practices and policies of the Parties and their respective subsidiaries during the period culminating in the Effective Time, and as soon as practicable after such adoption, each such Party shall comply, and cause their respective subsidiaries to comply, with such principles and guidelines (and any amendments thereto which are mutually agreed by the Parties thereafter);

(f) take any action with respect to increases in employee compensation, or make any payments under any GTE Plan or any Bell Atlantic Plan, as the case may be, to any director or employee of, or independent contractor or consultant to, such Party or any of its Subsidiaries, adopt or otherwise materially amend (except for amendments required or made advisable by Legal Requirements) any GTE Plan or Bell Atlantic Plan, as the case may be, or enter into or amend any employment or consulting agreement, or grant or establish any new awards under any such existing GTE Plan or Bell Atlantic Plan or agreement;

provided, however, that this subsection shall not prohibit GTE or Bell Atlantic or their respective subsidiaries from taking any actions whatsoever that are described in this Section 6.2(f) if (i) such actions are not Merger-related and are in amounts not materially greater than past practice or as otherwise required by Legal Requirements or applicable provisions of the plan, policy or arrangement, and, except in the case of increases in employee compensation in the ordinary course of business consistent with past practice, the Party taking such action consults with the other Party (where such consultation is reasonable and practicable) reasonably in advance of any such action, or (ii) such actions are taken to meet business needs, are consistent with competitive market practices of large data transmission or telecommunications companies, and the other Party gives its consent to such actions (such consent not to be unreasonably withheld after being consulted by the Party proposing such action (where such consultation is reasonable and practicable) reasonably in advance of any such action);

(g) change in any material respect its accounting policies, methods or procedures except as required by GAAP;

(h) take any action which it believes when taken could reasonably be expected to adversely affect or delay in any material respect the ability of any of the Parties to obtain any approval of any Governmental Entity required to consummate the transactions contemplated hereby;

(i) other than pursuant to this Agreement, take any action to cause the shares of their respective Common Stock to cease to be quoted on any of the stock exchanges on which such shares are now quoted;

(j) (i) other than as consistent with past practice, issue SARS, new performance shares, restricted stock, or similar equity based rights; (ii) materially modify (with materiality to be determined with respect to the Benefit Plan in question) any actuarial cost method, assumption or practice used in determining benefit obligations, annual expense and funding for any Benefit Plan, except to the extent required by GAAP; (iii) materially modify (with materiality to be determined with respect to the Benefit Plan trust in question) the investment philosophy of the Benefit Plan trusts or maintain an asset allocation which is not consistent with such philosophy, subject to any ERISA fiduciary obligation; (iv) subject to any ERISA fiduciary obligation, enter into any outsourcing agreement, or any other material contract relating to the Benefit Plans or management of the Benefit Plan trusts, provided that Bell Atlantic and GTE may enter into any such contracts that may be terminated within two years; (v) offer any new or extend any existing retirement incentive, "window" or similar benefit program; (vi) grant any ad hoc pension increase; (vii) establish any new or fund any existing "rabbi" or similar trust (except in accordance with the current terms of such trust), or enter into any other arrangement for the purpose of securing non-qualified benefits or deferred compensation; (viii) adopt any corporate owned life insurance program; or (ix) adopt or implement any "split dollar" life insurance program;

provided, however, that this subsection shall not prohibit GTE or Bell Atlantic or their respective subsidiaries from taking any actions whatsoever that are described in this Section 6.2(j) (with the exception of clause (j)(i)) if such actions are in amounts not materially greater than past practice or as otherwise required by Legal Requirements or applicable provisions of the plan, policy or arrangement, and the Party taking such action consults with the other Party (where such consultation is reasonable and practicable) reasonably in advance of any such action; or

(k) take any action which it believes when taken would cause its representations and warranties contained herein to become inaccurate in any material respect.

GTE and Bell Atlantic agree that any written approval obtained under this Section 6.2 may be relied upon by the other Party if signed by the Chief Executive Officer or any other executive officer of the Party providing such written approval.

SECTION 6.3—No Solicitation. (a) From and after the date hereof, Bell Atlantic shall not, nor shall it permit any of its Subsidiaries to, nor shall it authorize or permit any of its officers, directors or employees or any investment banker, financial advisor, attorney, accountants or other representatives retained by it or any of its Subsidiaries to, directly or indirectly through another person, (i) solicit, initiate or encourage (including by way of furnishing information), or knowingly take any other action designed to facilitate, any Alternative Transaction (as hereinafter defined) or (ii) participate in any discussions regarding any Alternative Transaction; provided, however, that if, at any time prior to approval of the Stock Issuance and the Certificate Amendment by the holders of Bell Atlantic Common Stock, the Board of Directors of Bell Atlantic determines in good faith, after receipt of advice from outside counsel, that the failure to provide such information or participate in such negotiations or discussions would result in a reasonable possibility that the Board of Directors of Bell Atlantic would breach their fiduciary duties to stockholders under applicable law, Bell Atlantic may, in response to any such proposal that has been determined by it to be a Bell Atlantic Superior Proposal (as defined in Section 7.2(b)), that was not solicited by it and that did not otherwise result from a breach of this Section 6.3(a), and subject to Bell Atlantic giving GTE at least two business days written notice of its intention to do

so, (x) furnish information with respect to Bell Atlantic and its Subsidiaries to any person pursuant to a customary confidentiality agreement containing terms no less restrictive than the terms of the Nondisclosure Agreement dated July 19, 1998 entered into between Bell Atlantic and GTE (the "Nondisclosure Agreement"), provided that a copy of all such information is delivered simultaneously to GTE, and (y) participate in negotiations regarding such proposal. Bell Atlantic shall promptly notify GTE orally and in writing of any request for information or of any proposal in connection with an Alternative Transaction, the material terms and conditions of such request or proposal (including a copy thereof, if in writing, and all other documentation and any related correspondence) and the identity of the person making such request or proposal. Bell Atlantic will keep GTE reasonably informed of the status and details (including amendments or proposed amendments) of such request or proposal on a current basis. Bell Atlantic shall immediately cease and terminate any existing solicitation, initiation, encouragement, activity, discussion or negotiation with any persons conducted heretofore by Bell Atlantic or its representatives with respect to the foregoing. Bell Atlantic (i) agrees not to release any Third Party (as defined below) from, or waive any provision of, or fail to enforce, any standstill agreement or similar agreements to which it is a party related to, or which could affect, an Alternative Transaction and agrees that GTE shall be entitled to enforce Bell Atlantic's rights and remedies under and in connection with such agreements and (ii) acknowledges that the provisions of clause (i) are an important and integral part of this Agreement. Nothing contained in this Section 6.3(a) or Section 7.2 shall prohibit Bell Atlantic (i) from taking and disclosing to its stockholders a position contemplated by Rule 14e-9 or Rule 14e-2(a) promulgated under the Exchange Act or (ii) from making any disclosure to its stockholders if, in the good faith judgment of the Board of Directors of Bell Atlantic, after receipt of advice from outside counsel, failure to disclose would result in a reasonable possibility that the Board of Directors of Bell Atlantic would breach its fiduciary duties to Bell Atlantic's stockholders under applicable law.

(b) From and after the date hereof, GTE shall not, nor shall it permit any of its Subsidiaries to, nor shall it authorize or permit any of its officers, directors or employees or any investment banker, financial advisor, attorney, accountants or other representatives retained by it or any of its Subsidiaries to, directly or indirectly through another person, (i) solicit, initiate or encourage (including by way of furnishing information), or knowingly take any other action designed to facilitate, any Alternative Transaction (as hereinafter defined) or (ii) participate in any discussions regarding any Alternative Transaction; provided, however, that if, at any time prior to approval of this Agreement by the holders of GTE Common Stock, the Board of Directors of GTE determines in good faith, after receipt of advice from outside counsel, that the failure to provide such information or participate in such negotiations or discussions would result in a reasonable possibility that the Board of Directors of GTE would breach their fiduciary duties to stockholders under applicable law, GTE may, in response to a proposal that has been determined by it to be a GTE Superior Proposal (as defined in Section 7.2(d)), that was not solicited by it and that did not otherwise result from a breach of this Section 6.3(b), and subject to GTE giving Bell Atlantic at least two business days written notice of its intention to do so, (x) furnish information with respect to GTE and its Subsidiaries to any person pursuant to a customary confidentiality agreement containing terms no less restrictive than the terms of the Nondisclosure Agreement, provided that a copy of all such information is delivered simultaneously to Bell Atlantic, and (y) participate in negotiations regarding such proposal. GTE shall promptly notify Bell Atlantic orally and in writing of any request for information or of any proposal in connection with an Alternative Transaction, the material terms and conditions of such request or proposal (including a copy thereof, if in writing, and all other documentation and any related correspondence) and the identity of the person making such request or proposal. GTE will keep Bell Atlantic reasonably informed of the status and details (including amendments or proposed amendments) of such request or proposal on a current basis. GTE shall immediately cease and terminate any existing solicitation, initiation, encouragement, activity, discussion or negotiation with any persons conducted heretofore by GTE or its representatives with respect to the foregoing. GTE (i) agrees not to release any Third Party from, or waive any provision of, or fail to enforce, any standstill agreement or similar agreements to which it is a party related to, or which could affect, an Alternative Transaction and agrees that Bell Atlantic shall be entitled to enforce GTE's rights and remedies under and in connection with such agreements and (ii) acknowledges that the provisions of clause (i) are an important and integral part of this Agreement. Nothing contained in this Section 6.3(b) or in Section 7.2 shall prohibit GTE (i) from taking and disclosing to its stockholders a position

contemplated by Rule 14e-9 or Rule 14e-2(a) promulgated under the Exchange Act or (ii) from making any disclosure to its stockholders if, in the good faith judgment of the Board of Directors of GTE, after receipt of advice from outside counsel, failure to disclose would result in a reasonable possibility that the Board of Directors of GTE would breach its fiduciary duties to GTE's stockholders under applicable law.

(c) For purposes of this Agreement, "Alternative Transaction" means, whether in the form of a proposal or intended proposal, a signed agreement or completed action, as the case may be, any of (i) a transaction or series of transactions pursuant to which any person (or group of persons) other than Bell Atlantic and its Subsidiaries and other than GTE and its Subsidiaries (a "Third Party") acquires or would acquire, directly or indirectly, beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of more than 20% of the outstanding shares of Bell Atlantic or GTE, as the case may be, whether from Bell Atlantic or GTE or pursuant to a tender offer or exchange offer or otherwise, (ii) any acquisition or proposed acquisition of, or business combination with, Bell Atlantic or any of its Significant Subsidiaries or GTE or any of its Significant Subsidiaries, as the case may be, by a merger or other business combination (including any so-called "merger-of-equals" and whether or not Bell Atlantic or any of its Significant Subsidiaries or GTE or any of its Significant Subsidiaries, as the case may be, is the entity surviving any such merger or business combination) or (iii) any other transaction pursuant to which any Third Party acquires or would acquire, directly or indirectly, control of assets (including for this purpose the outstanding equity securities of Subsidiaries of Bell Atlantic or GTE, as the case may be, and any entity surviving any merger or business combination including any of them) of Bell Atlantic or any of its Subsidiaries or GTE or any of its Subsidiaries, as the case may be, for consideration equal to 20% or more of the fair market value of all of the outstanding shares of Bell Atlantic Common Stock or all of the outstanding shares of GTE Common Stock, as the case may be, on the date of this Agreement.

SECTION 6.4—*Subsequent Financial Statements.* Prior to the Effective Time, each of GTE and Bell Atlantic (a) will consult with the other prior to making publicly available its financial results for any period and (b) will consult with the other prior to the filing of, and will timely file with the SEC, each Annual Report on Form 10-K, Quarterly Report on Form 10-Q and Current Report on Form 8-K required to be filed by such Party under the Exchange Act and the rules and regulations promulgated thereunder and will promptly deliver to the other copies of each such report filed with the SEC. As of their respective dates, none of such reports shall contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The respective audited financial statements and unaudited interim financial statements of each of GTE and Bell Atlantic, as the case may be, included in such reports will fairly present the consolidated financial position of such Party and its Subsidiaries as at the dates thereof and the results of their operations and cash flows for the periods then ended in accordance with GAAP applied on a consistent basis and, subject, in the case of unaudited interim financial statements, to normal year-end adjustments.

SECTION 6.5—*Control of Operations.* Nothing contained in this Agreement shall give Bell Atlantic, directly or indirectly, the right to control or direct GTE's operations prior to the Effective Time. Nothing contained in this Agreement shall give GTE, directly or indirectly, the right to control or direct Bell Atlantic's operations prior to the Effective Time. Prior to the Effective Time, each of Bell Atlantic and GTE shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its respective operations.

ARTICLE VII—ADDITIONAL AGREEMENTS

SECTION 7.1—*Joint Proxy Statement and the Registration Statement.* (a) As promptly as practicable after the execution and delivery of this Agreement, the Parties shall prepare and file with the SEC, and shall use all reasonable efforts to have cleared by the SEC, and promptly thereafter shall mail to the holders of record of shares of Bell Atlantic Common Stock and GTE Common Stock, the Joint Proxy Statement, provided, however, that GTE and Bell Atlantic shall not mail or otherwise furnish the Joint Proxy Statement to their respective stockholders unless and until:

(i) they have received notice from the SEC that the Registration Statement is effective under the 1933 Act;

(ii) GTE shall have received a letter of PricewaterhouseCoopers L.L.P., dated a date within two business days prior to the date of the first mailing of the Joint Proxy Statement, and addressed to GTE, in form and substance reasonably satisfactory to GTE and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form S-4 with respect to the financial statements of Bell Atlantic included in the Joint Proxy Statement and the Registration Statement; and

(iii) Bell Atlantic shall have received a letter of Arthur Andersen LLP, dated a date within two business days prior to the date of the first mailing of the Joint Proxy Statement, and addressed to Bell Atlantic, in form and substance reasonably satisfactory to Bell Atlantic and customary in scope and substance for "cold comfort" letters delivered by independent public accountants in connection with registration statements on Form S-4 with respect to the financial statements of GTE included in the Joint Proxy Statement and the Registration Statement.

(b) The Parties will cooperate in the preparation of the Joint Proxy Statement and the Registration Statement and in having the Registration Statement declared effective as soon as practicable.

SECTION 7.2—Bell Atlantic and GTE Stockholders' Meetings.

(a) As promptly as practicable after the Registration Statement is declared effective under the Securities Act, Bell Atlantic shall duly give notice of, convene and hold a meeting of its stockholders (the "Bell Atlantic Stockholders' Meeting") in accordance with the DGCL for the purpose of obtaining the Bell Atlantic Stockholder Approval and shall, subject to the provisions of Section 7.2(b) hereof, through its Board of Directors, recommend to its stockholders the approval of the Stock Issuance and adoption of the Certificate Amendment.

(b) Neither the Board of Directors of Bell Atlantic nor any committee thereof shall (i) except as expressly permitted by this Section 7.2(b), withdraw, qualify or modify, or propose publicly to withdraw, qualify or modify, in a manner adverse to GTE, the approval or recommendation of such Board of Directors or such committee of the Certificate Amendment or the Stock Issuance, (ii) approve or recommend, or propose publicly to approve or recommend, any Alternative Transaction or (iii) cause Bell Atlantic to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement (each, a "Bell Atlantic Acquisition Agreement") related to any Alternative Transaction. Notwithstanding the foregoing, in the event that prior to the adoption of the Stock Issuance and the Certificate Amendment by the holders of Bell Atlantic Common Stock the Board of Directors of Bell Atlantic determines in good faith, after it has received a Bell Atlantic Superior Proposal (as defined below) and after receipt of advice from outside counsel, that the failure to do so would result in a reasonable possibility that the Board of Directors of Bell Atlantic would breach its fiduciary duties to Bell Atlantic stockholders under applicable law, the Board of Directors of Bell Atlantic may (subject to this and the following sentences) inform Bell Atlantic stockholders that it no longer believes that such adoption is advisable and no longer recommends approval (a "Bell Atlantic Subsequent Determination"), but only at a time that is after the fifth business day following GTE's receipt of written notice advising GTE that the Board of Directors of Bell Atlantic has received a Bell Atlantic Superior Proposal specifying the material terms and conditions of such Bell Atlantic Superior Proposal (and including a copy thereof with all accompanying documentation, if in writing), identifying the person making such Bell Atlantic Superior Proposal and stating that it intends to make a Bell Atlantic Subsequent Determination. After providing such notice, Bell Atlantic shall provide a reasonable opportunity to GTE to make such adjustments in the terms and conditions of this Agreement as would enable Bell Atlantic to proceed with its recommendation to its stockholders without a Bell Atlantic Subsequent Determination; provided, however, that any such adjustment shall be at the discretion of the Parties at the time. For purposes of this Agreement, a "Bell Atlantic Superior Proposal" means any proposal (on its most recently amended or modified terms, if amended or modified) made by a Third Party to enter into an Alternative Transaction which the Board of Directors of Bell Atlantic

determines in its good faith judgment (based on, among other things, the advice of a financial advisor of nationally recognized reputation) to be more favorable to Bell Atlantic's stockholders than the Merger taking into account all relevant factors (including whether, in the good faith judgment of the Board of Directors of Bell Atlantic, after obtaining the advice of a financial advisor of nationally recognized reputation, the Third Party is reasonably able to finance the transaction, and any proposed changes to this Agreement that may be proposed by GTE in response to such Alternative Transaction). Notwithstanding any other provision of this Agreement, Bell Atlantic shall submit the Stock Issuance and the Certificate Amendment to its stockholders whether or not the Board of Directors of Bell Atlantic makes a Bell Atlantic Subsequent Determination.

(c) As promptly as practicable after the Registration Statement is declared effective under the Securities Act, GTE shall duly give notice of, convene and hold a meeting of its stockholders (the "GTE Stockholders Meeting") in accordance with the NYBCL for the purpose of obtaining the GTE Stockholder Approval and shall, subject to the provisions of Section 7.2(d) hereof, through its Board of Directors, recommend to its stockholders the approval and adoption of this Agreement and the Merger.

(d) Neither the Board of Directors of GTE nor any committee thereof shall (i) except as expressly permitted by this Section 7.2(d), withdraw, qualify or modify, or propose publicly to withdraw, qualify or modify, in a manner adverse to Bell Atlantic, the approval or recommendation of such Board of Directors or such committee of the Merger or this Agreement, (ii) approve or recommend, or propose publicly to approve or recommend, any Alternative Transaction, or (iii) cause GTE to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement (each, a "GTE Acquisition Agreement") related to any Alternative Transaction. Notwithstanding the foregoing, in the event that prior to the adoption of this Agreement by the holders of GTE Common Stock the Board of Directors of GTE determines in good faith, after it has received a GTE Superior Proposal (as defined below) and after receipt of advice from outside counsel, that the failure to do so would result in a reasonable possibility that the Board of Directors of GTE would breach its fiduciary duties to GTE stockholders under applicable law, the Board of Directors of GTE may (subject to this and the following sentences) inform GTE stockholders that it no longer believes that the Merger is advisable and no longer recommends approval (a "GTE Subsequent Determination"), but only at a time that is after the fifth business day following Bell Atlantic's receipt of written notice advising Bell Atlantic that the Board of Directors of GTE has received a GTE Superior Proposal specifying the material terms and conditions of such GTE Superior Proposal (and including a copy thereof with all accompanying documentation, if in writing), identifying the person making such GTE Superior Proposal and stating that it intends to make a GTE Subsequent Determination. After providing such notice, GTE shall provide a reasonable opportunity to Bell Atlantic to make such adjustments in the terms and conditions of this Agreement as would enable GTE to proceed with its recommendation to its stockholders without a GTE Subsequent Determination; provided, however, that any such adjustment shall be at the discretion of the Parties at the time. For purposes of this Agreement, a "GTE Superior Proposal" means any proposal (on its most recently amended or modified terms, if amended or modified) made by a Third Party to enter into an Alternative Transaction which the Board of Directors of GTE determines in its good faith judgment (based on, among other things, the advice of a financial advisor of nationally recognized reputation) to be more favorable to GTE's stockholders than the Merger taking into account all relevant factors (including whether, in the good faith judgment of the Board of Directors of GTE, after obtaining the advice of a financial advisor of nationally recognized reputation, the Third Party is reasonably able to finance the transaction, and any proposed changes to this Agreement that may be proposed by Bell Atlantic in response to such Alternative Transaction). Notwithstanding any other provision of this Agreement, GTE shall submit this Agreement to its stockholders whether or not the Board of Directors of GTE makes a GTE Subsequent Determination.

SECTION 7.3—*Consummation of Merger; Additional Agreements.*

(a) Upon the terms and subject to the conditions hereof and as soon as practicable after the conditions set forth in Article VIII hereof have been fulfilled or waived, each of the Parties required to do so shall execute in the manner required by the NYBCL and deliver to and file with the Secretary of State of the State of New York such instruments and agreements as may be required by the NYBCL and the Parties shall take all such

other and further actions as may be required by law to make the Merger effective, and Bell Atlantic shall take all such other and further actions as may be required by law to make the Certificate Amendment and the Bylaws Amendment effective. Prior to the filings referred to in this Section 7.3(a), a closing (the "Closing") will be held at the offices of Bell Atlantic (or such other place as the Parties may agree) for the purpose of confirming all the foregoing. The Closing will take place upon the fulfillment or waiver of all of the conditions to closing set forth in Article VIII of this Agreement, or as soon thereafter as practicable (the date of the Closing being herein referred to as the "Closing Date").

(b) Each of the Parties will comply in all material respects with all applicable laws and with all applicable rules and regulations of any Governmental Entity in connection with its execution, delivery and performance of this Agreement and the transactions contemplated hereby. Each of the Parties agrees to use all commercially reasonable efforts to obtain in a timely manner all necessary waivers, consents and approvals and to effect all necessary registrations and filings, and to use all commercially reasonable efforts to take, or cause to be taken, all other actions and to do, or cause to be done, all other things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement and the Option Agreements and to effect all necessary filings under the 1933 Act, the Exchange Act and the HSR Act. Without limiting the generality of the foregoing, each of GTE and Bell Atlantic shall promptly prepare and file a Premerger Notification in accordance with the HSR Act, shall promptly comply with any requests for additional information, and shall use its commercially reasonable efforts to obtain termination of the waiting period thereunder as promptly as practicable.

(c) Each of Bell Atlantic and GTE shall, in connection with the efforts referenced in Section 7.3(a) and (b), (i) cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party; (ii) promptly inform the other party of any material communication received by such party from, or given by such party to any Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby and (iii) consult with each other in advance of any meeting or conference with any such Governmental Entity or, in connection with any proceeding by a private party, with any other person, and to the extent permitted by the applicable Governmental Entity or other person, give the other Party the opportunity to attend and participate in such meetings and conferences.

(d) In furtherance and not in limitation of the covenants of the parties contained in Sections 7.3(a), (b) and (c), if any administrative or judicial action or proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging any transaction contemplated by this Agreement or the Option Agreements as violative of any applicable law, or if any statute, rule, regulation, executive order, decree, injunction or administrative order is enacted, entered or promulgated or enforced by a Governmental Entity which would make the Merger or the other transactions contemplated hereby or by the Option Agreements illegal or otherwise prohibit or materially impair or delay consummation of the transactions contemplated hereby or thereby, each of Bell Atlantic and GTE shall cooperate in all respects with each other and use all commercially reasonable efforts to contest and resist any such action or proceeding, to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the transactions contemplated by this Agreement and to have such statute, rule, regulation, executive order, decree, injunction or administrative order repealed, rescinded or made inapplicable. Notwithstanding the foregoing or any other provision of this Agreement, nothing in this Section 7.3 shall limit a party's right to terminate this Agreement pursuant to Section 9.1 so long as such Party has up to then complied in all respects with its obligations under this Section 7.3.

(e) If any objections are asserted with respect to the transactions contemplated hereby under any applicable law or if any suit is instituted by any Governmental Entity or any private party challenging any of the transactions contemplated hereby as violative of any applicable law, each of Bell Atlantic and GTE shall

use its commercially reasonable efforts to resolve any such objections or challenge as such Governmental Entity or private party may have to such transactions under such law so as to permit consummation of the transactions contemplated by this Agreement.

SECTION 7.4—Notification of Certain Matters. Each of GTE and Bell Atlantic shall give prompt notice to the other of the following:

(a) the occurrence or nonoccurrence of any event whose occurrence or nonoccurrence would be likely to cause either (i) any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at any time from the date hereof to the Effective Time, or (ii) directly or indirectly, any Material Adverse Effect on such Party;

(b) any material failure of such Party, or any officer, director, employee or Agent of any thereof, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, and

(c) any facts relating to such Party which would make it necessary or advisable to amend the Joint Proxy Statement or the Registration Statement in order to make the statements therein not misleading or to comply with applicable law; provided, however, that the delivery of any notice pursuant to this Section 7.4 shall not limit or otherwise affect the remedies available hereunder to the Party receiving such notice.

SECTION 7.5—Access to Information. (a) From the date hereof to the Effective Time, each of GTE and Bell Atlantic shall, and shall cause its respective Subsidiaries, and its and their officers, directors, employees, auditors, counsel and agents to afford the officers, employees, auditors, counsel and agents of the other Party complete access at all reasonable times to such Party's and its Subsidiaries' officers, employees, auditors, counsel agents, properties, offices and other facilities and to all of their respective books and records, and shall furnish the other with all financial, operating and other data and information as such other Party may reasonably request, including in connection with confirmatory due diligence.

(b) Each of GTE and Bell Atlantic agrees that all information so received from the other Party shall be deemed received pursuant to the Nondisclosure Agreement and such Party shall, and shall cause its Subsidiaries and each of its and their respective officers, directors, employees, financial advisors and agents ("Party Representatives"), to comply with the provisions of the Nondisclosure Agreement with respect to such information and the provisions of the Nondisclosure Agreement are hereby incorporated herein by reference with the same effect as if fully set forth herein, provided that such information may be used for any purpose contemplated hereby.

SECTION 7.6—Public Announcements. GTE and Bell Atlantic shall use all reasonable efforts to develop a joint communications plan and each Party shall use all reasonable efforts to ensure that all press releases and other public statements with respect to the transactions contemplated hereby shall be consistent with such joint communications plan or, to the extent inconsistent therewith, shall have received the prior written approval of the other.

SECTION 7.7—Transfer Statutes. Each of GTE and Bell Atlantic agrees to use its commercially reasonable efforts to comply promptly with all requirements of the New Jersey and Connecticut Property Transfer Statutes, to the extent applicable to the transactions contemplated hereby, and to take all actions necessary to cause the transactions contemplated hereby to be effected in compliance with the New Jersey and Connecticut Property Transfer Statutes. GTE and Bell Atlantic agree that they will consult with each other to determine what, if any, actions must be taken prior to or after the Effective Time to ensure compliance with such statutes. Each of GTE and Bell Atlantic agrees to provide the other with any documents to be submitted to the relevant state agencies prior to submission and agrees not to take any action to comply with the New Jersey and Connecticut Property Transfer Statutes without the other's prior consent, which consent shall not be unreasonably withheld. Each Party shall bear its respective costs and expenses incurred in connection with

compliance with the New Jersey and Connecticut Property Transfer Statutes. For purposes of this section, the New Jersey and Connecticut Property Transfer Statutes means the New Jersey Industrial Site Recovery Act, 1993 N.J. Laws 139, and the Connecticut Transfer Act, Conn. Gen. Stat. Ann. § 22a-134(b).

SECTION 7.8—Indemnification, Directors' and Officers' Insurance. For a period of six years after the Effective Time, Bell Atlantic shall cause GTE to, and Bell Atlantic shall, maintain in effect the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by GTE and Bell Atlantic, respectively (provided that Bell Atlantic may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured in any material respect) with respect to all possible claims arising from facts or events which occurred on or before the Effective Time. Bell Atlantic shall cause GTE to maintain in effect (a) the current provisions regarding indemnification of officers and directors contained in the charter and bylaws of GTE and each of its Subsidiaries until the statutes of limitations for all possible claims have run; provided that Bell Atlantic need not cause GTE to maintain in effect indemnification provisions contained in the charter and bylaws of its Subsidiaries if and to the extent that Bell Atlantic assumes such indemnity obligations; and (b) any directors, officers or employees indemnification agreements of GTE and its respective Subsidiaries. Bell Atlantic shall cause GTE to, and Bell Atlantic shall, indemnify the directors and officers of GTE and Bell Atlantic, respectively, to the fullest extent to which GTE and Bell Atlantic are permitted to indemnify such officers and directors under their respective charters and bylaws and applicable law. As of the Effective Time, Bell Atlantic shall unconditionally and irrevocably guarantee for the benefit of such directors, officers and employees the obligations of GTE under the foregoing indemnification arrangements.

SECTION 7.9—Employee Benefit Plans. (a) Except as otherwise provided herein or set forth in Section 6.2 of the Disclosure Schedules, GTE and Bell Atlantic agree that, unless otherwise mutually determined, the GTE Plans and the Bell Atlantic Plans in effect at the date hereof shall remain in effect after the Effective Time with respect to classes of employees covered by such plans immediately prior to the Effective Time.

From time to time from the date hereof to the Effective Time, the management of Bell Atlantic and GTE shall consult with one another for the purpose of reviewing such Benefit Plans for management (non-represented) employees of Bell Atlantic and GTE and their respective subsidiaries ("Management Employees"), and determining which of such Benefit Plans represent best competitive practices, which should be terminated at the Effective Time (or following a transition period thereafter), and which of such Benefit Plans should be redesigned and/or extended to other employees at (or after) the Effective Time. Notwithstanding the foregoing or any other provision of this Agreement, (1) after the Effective Time, Bell Atlantic shall cause the compensation and benefits provided to similarly-situated Management Employees of each business unit to be at least as valuable as the aggregate compensation and benefit package provided to such employees of that business unit immediately prior to the Effective Time, except to the extent (i) such benefits and/or compensation plans are replaced by one or more benefits and/or compensation plans at least as valuable as those which are provided to similarly situated employees of comparable business units of the other Party or its subsidiaries, or (ii) corresponding benefits for similarly situated employees of the other Party or its subsidiaries are eliminated, (2) from the Effective Time until the first anniversary thereof, Bell Atlantic shall not, and shall ensure that each of its Subsidiaries shall not, discontinue, or change eligibility provisions or levels of benefits under, severance plans, policies and arrangements in which such Management Employees participated immediately prior to the Effective Time, and further agrees that any of such plans, policies or arrangements that expire during such one-year period shall be extended for the duration of such one-year period, and (3) for the 18-month period immediately following the Effective Time, with respect to those GTE Management Employees who were relocated as part of the consolidation of GTE's world headquarters to Texas, Bell Atlantic shall not, and shall ensure that each of its Subsidiaries shall not, discontinue, or change the relocation benefits program which was applicable to such Management Employees as of the Effective Time. In addition, with respect to all Management Employees, at and after the Effective Time (i) each such employee shall receive full credit for their credited service with their respective employer prior to the Effective Time for all purposes, including eligibility (including eligibility for early retirement, disability and other benefits),

vesting, level of benefits and benefit accrual (except to the extent such benefit accrual would be duplicative); (ii) any provisions which restrict benefits by reason of pre-existing conditions, waiting periods or evidence of insurability shall be waived and (iii) such employees shall receive credit under such plan for co-payments and deductible during the applicable plan year.

(b) Except as otherwise set forth in Sections 2.8 and 2.9 hereof, in the case of the GTE Plans under which the employees' interests are based upon GTE Common Stock, or the respective market prices thereof (but which interests do not constitute stock options), GTE and Bell Atlantic agree that such interests shall, from and after the Effective Time, be based on Bell Atlantic Common Stock in accordance with the Exchange Ratio.

(c) With respect to all GTE Plans which have entitlement or vesting terms that are based upon the market price or value per share of GTE Common Stock, GTE and Bell Atlantic agree that from and after the Effective Time, such market price or value per share shall be adjusted by multiplying it by the inverse of the Exchange Ratio.

(d) With respect to any GTE Plans maintained or contributed to outside the United States for the benefit of non-United States citizens or residents, the principles set forth in this Section 7.9 and in Section 6.2 of the Disclosure Schedules shall apply to the extent the application of such principles does not violate applicable foreign law.

(e) Without limiting the applicability of Sections 2.8 and 2.9 hereof, each of the Parties shall take all actions as are necessary to ensure that GTE will not at the Effective Time be bound by any stock options, SARS, warrants or other rights or agreements which would entitle any person, other than Bell Atlantic, to own any capital stock of the Surviving Corporation or to receive any payment in respect thereof, and all GTE Plans conferring any rights with respect to GTE Common Stock or other capital stock of GTE shall be deemed hereby to be amended to be in conformity with this Section 7.9.

SECTION 7.10—Succession. (a) At the Effective Time, pursuant to the terms of the Employment Agreements (as defined below) and subject to Section 5.11 of the Bylaws of Bell Atlantic reflecting the Bylaws Amendment (the "Amended Bylaws") (i) Charles R. Lee shall hold the positions of Chairman and Co-Chief Executive Officer of Bell Atlantic and (ii) Ivan G. Seidenberg shall hold the positions of President and Co-Chief Executive Officer of Bell Atlantic. Pursuant to the terms of the Employment Agreements and subject to Section 5.11 of the Amended Bylaws (A) on June 30, 2002, Mr. Seidenberg shall become the sole Chief Executive Officer of Bell Atlantic and (B) on June 30, 2004, Mr. Lee shall cease to be Chairman of Bell Atlantic and such position will be assumed by Mr. Seidenberg. If either of such persons is unable or unwilling to hold such offices as set forth above, his successor shall be selected by the Board of Directors of Bell Atlantic in accordance with the Amended Bylaws. The authority, duties and responsibilities of the positions set forth above shall be set forth in the Employment Agreements, which Employment Agreements shall also set forth in their entirety the rights and remedies of Mr. Seidenberg and Mr. Lee with respect to employment by Bell Atlantic. Neither Mr. Seidenberg nor Mr. Lee shall have any right, remedy or cause of action under this Section 7.10, nor shall they be third party beneficiaries of this Section 7.10.

(b) As soon as practicable after the date hereof, Bell Atlantic shall enter into employment agreements effective as of the Effective Time (the "Employment Agreements") with Messrs. Lee and Seidenberg containing arrangements concerning management succession satisfactory to each Party.

SECTION 7.11—Stock Exchange Listing. Each of the Parties shall use its best efforts to obtain, prior to the Effective Time, the approval for listing on the NYSE, effective upon official notice of issuance, of the shares of Bell Atlantic Common Stock into which the GTE Common Stock will be converted pursuant to Article II hereof and which will be issuable upon exercise of options pursuant to Section 2.8 hereof.

SECTION 7.12—Post-Merger Bell Atlantic Board of Directors. (a) At the Effective Time, 50% of the directors of Bell Atlantic shall be directors selected by Bell Atlantic, to the extent possible from current

directors of Bell Atlantic, and 50% shall be selected by GTE, to the extent possible from current directors of GTE.

The persons to serve initially on the Board of Directors of Bell Atlantic at the Effective Time who are GTE Directors (as defined below) shall be selected solely by and at the absolute discretion of the Board of Directors of GTE prior to the Effective Time; and the persons to serve on the Board of Directors of Bell Atlantic at the Effective Time who are Bell Atlantic Directors (as defined below) shall be selected solely by and at the absolute discretion of the Board of Directors of Bell Atlantic prior to the Effective Time. In the event that, prior to the Effective Time, any person so selected to serve on the Board of Directors of Bell Atlantic after the Effective Time is unable or unwilling to serve in such position, the Board of Directors which selected such person shall designate another of its members to serve in such person's stead in accordance with the provisions of the immediately preceding sentence.

(b) From and after the Effective Time and until July 1, 2002, the Board of Directors of Bell Atlantic and each Committee of the Board of Directors of Bell Atlantic as constituted following each election of Directors shall consist of an equal number of GTE Directors and Bell Atlantic Directors and subject to the fiduciary duties of the Directors, the Board of Directors shall nominate for election at each stockholders meeting at which Directors are elected, an equal number of GTE Directors and Bell Atlantic Directors. If, at any time prior to July 1, 2002, the number of GTE Directors and Bell Atlantic Directors serving, either as directors or as members of any Committee of the Board of Directors of Bell Atlantic, would not be equal, then, subject to the fiduciary duties of the directors, the Board of Directors shall appoint to fill any existing vacancy or vacancies, as appropriate, such person or persons as may be requested by the remaining GTE Directors (if the number of GTE Directors is, or would otherwise become, less than the number of Bell Atlantic Directors) or by the remaining Bell Atlantic Directors (if the number of Bell Atlantic Directors is, or would otherwise become, less than the number of GTE Directors) to ensure that there shall be an equal number of GTE Directors and Bell Atlantic Directors. The provisions of the preceding two sentences shall not apply in respect of any vacancy which occurs after July 1, 2002. The term "GTE Director" means (i) any person serving as a director of GTE on the date hereof who becomes a director of Bell Atlantic at the Effective Time and (ii) any person who subsequently becomes a director of Bell Atlantic and who is designated by the GTE Directors pursuant to this paragraph; and the term "Bell Atlantic Director" means (i) any person serving as a director of Bell Atlantic on the date hereof who continues as a director of Bell Atlantic after the Effective Time and (ii) any person who becomes a director of Bell Atlantic and who is designated by the Bell Atlantic Directors pursuant to this paragraph. From the Effective Time through July 1, 2002, the Board of Directors shall consist of an even number of Directors and such number of Directors shall not be amended unless, immediately following such amendment, the number of GTE Directors then in office is equal to the number of Bell Atlantic Directors then in office.

(c) Each of GTE and Bell Atlantic shall take such action as shall reasonably be deemed by either thereof to be advisable to give effect to the provisions set forth in this section, including but not limited to incorporating such provisions in the Bylaws of Bell Atlantic in effect at the Effective Time.

SECTION 7.13—No Shelf Registration. Bell Atlantic shall not be required to amend or maintain the effectiveness of the Registration Statement for the purpose of permitting resale of the shares of Bell Atlantic Common Stock received pursuant hereto by the persons who may be deemed to be "affiliates" of GTE or Bell Atlantic within the meaning of Rule 145 promulgated under the 1933 Act. The shares of Bell Atlantic Common Stock issuable upon exercise of options pursuant to Section 2.8 hereof shall be registered under the 1933 Act and such registration shall be effective at the time of issuance.

SECTION 7.14—Affiliates. (a) Each of GTE and Bell Atlantic (i) has disclosed to the other in Section 7.14 of the Disclosure Schedules all persons who are, or may be, as of the date hereof its "affiliates" for purposes of Rule 145 under the Securities Act or SEC Accounting Series Release 135, and (ii) shall use all reasonable efforts to cause each person who is identified as an "affiliate" of it in Section 7.14 of the Disclosure Schedules to deliver to the other as promptly as practicable but in no event later than 31 days prior

to the Closing Date, a signed Agreement substantially in the form attached hereto as Exhibit 7.14(a), in the case of GTE, and 7.14(b), in the case of Bell Atlantic. GTE and Bell Atlantic shall notify each other from time to time of any other persons who then are, or may be, such an "affiliate" and use all reasonable efforts to cause each additional person who is identified as an "affiliate" to execute a signed Agreement as set forth in this Section 7.14(a).

(b) If the transactions contemplated by this Agreement and the Option Agreements would otherwise qualify for pooling of interests accounting treatment, shares of GTE Common Stock and shares of Bell Atlantic Common Stock held by such "affiliates" of GTE or Bell Atlantic, as the case may be, shall not be transferable during the 30 day period prior to the Effective Time, and shares of Bell Atlantic Common Stock issued to, or as of the Effective Time held by, such "affiliates" of GTE and Bell Atlantic shall not be transferable until such time as financial results covering at least 30 days of combined operations of GTE and Bell Atlantic have been published within the meaning of Section 201.01 of the SEC's Codification of Financial Reporting Policies, regardless of whether each such "affiliate" has provided the signed Agreement referred to in Section 7.14 (a), except to the extent permitted by, and in accordance with, SEC Accounting Series Release 135 and SEC Staff Accounting Bulletins 65 and 76. Any Bell Atlantic Common Stock held by any such "affiliate" shall not be transferable, regardless of whether such "affiliate" has provided the applicable signed Agreement referred to in Section 7.14(a), if such transfer, either alone or in the aggregate with other transfers by "affiliates", would preclude the ability of the Parties to account for the transactions contemplated by this Agreement and the Option Agreements as a pooling of interests. Bell Atlantic shall not register the transfer of any shares of Bell Atlantic Common Stock unless such transfer is made in compliance with the foregoing.

SECTION 7.15—*Blue Sky*. GTE and Bell Atlantic will use their best efforts to obtain prior to the Effective Time all necessary blue sky permits and approvals required to permit the distribution of the shares of Bell Atlantic Common Stock to be issued in accordance with the provisions of this Agreement.

SECTION 7.16—*Pooling of Interests*. Each of the Parties will use its best efforts to (a) cause the transactions contemplated by this Agreement to be accounted for as a pooling of interests in accordance with GAAP, and such accounting treatment to be accepted by Bell Atlantic's independent certified public accountants, by the NYSE and by the SEC, respectively, and (b) not take any action which could reasonably be expected to cause such accounting treatment not to be obtained; provided that the foregoing shall not apply to any conduct or the effect of any conduct to obtain all necessary waivers, approvals and consents, and to avoid any contractual, legal, regulatory or other issues, impediments or delays, to consummate the transactions contemplated by this Agreement and the Option Agreements. Nothing in this Agreement shall restrict the rights of any Party pursuant to the Option Agreements.

SECTION 7.17—*Tax-Free Reorganization*. (a) Each of the Parties will use its best efforts to cause the Merger to qualify as a tax-free reorganization under Section 368 of the Code. (b) Bell Atlantic will deliver an Officer's Certificate substantially in the form of Exhibit 7.17(b)(i) executed as of the Closing Date and GTE will deliver an Officer's Certificate substantially in the form of Exhibit 7.17(b)(ii) executed as of the Closing Date.

ARTICLE VIII—CONDITIONS TO MERGER

SECTION 8.1—*Conditions to Obligations of Each Party to Effect the Merger*. The respective obligations of each Party to effect the Merger shall be subject to the following conditions:

(a) *Stockholder Approval*. Each of the GTE Stockholder Approval and the Bell Atlantic Stockholder Approval shall have been obtained;

(b) *Legality*. No federal, state or foreign statute, rule, regulation, executive order, decree, injunction or administrative order shall have been enacted, entered, promulgated or enforced by any Governmental Entity which is in effect and has the effect of (i) making the Merger illegal or otherwise prohibiting the consummation

of the Merger or (ii) creating a Material Adverse Effect on GTE or Bell Atlantic, with or without including its ownership of GTE and its Subsidiaries after the Effective Time;

(c) *HSR Act; California PUC.* Any waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated and the decision and order of the California Public Utilities Commission ("CPUC") authorizing the Merger and making any required determinations under Section 854(a)-(c) of the California Public Utilities Code, including its determination as to any required allocation of economic benefits, if any, of the Merger, between shareholders and ratepayers, shall have become final;

(d) *Regulatory Matters.* All authorizations, consents, orders, permits or approvals of, or declarations or filings with, and all expirations of waiting periods imposed by, any Governmental Entity (all of the foregoing, "Consents") which are necessary for the consummation of the transactions contemplated hereby, other than Consents which, if not obtained, would not have a Material Adverse Effect on Bell Atlantic, with or without including its ownership of GTE and its Subsidiaries after the Merger, or GTE, shall have been filed, have occurred or have been obtained (all such Consents being referred to as the "Requisite Regulatory Approvals") and all such Requisite Regulatory Approvals shall be in full force and effect, provided, however, that a Requisite Regulatory Approval shall not be deemed to have been obtained if in connection with the grant thereof there shall have been an imposition by any Governmental Entity of any condition, requirement, restriction or change of regulation, or any other action directly or indirectly related to such grant taken by such Governmental Entity, which would reasonably be expected to have a Material Adverse Effect on either of (A) GTE or (B) Bell Atlantic (either with or without including its ownership of GTE and its Subsidiaries after the Merger);

(e) *Registration Statement Effective.* The Registration Statement shall have become effective prior to the mailing by each of GTE and Bell Atlantic of the Joint Proxy Statement to its respective stockholders, no stop order suspending the effectiveness of the Registration Statement shall then be in effect, and no proceedings for that purpose shall then be threatened by the SEC or shall have been initiated by the SEC and not concluded or withdrawn;

(f) *Blue Sky.* All state securities or blue sky permits or approvals required to carry out the transactions contemplated hereby shall have been received;

(g) *Stock Exchange Listing.* The shares of Bell Atlantic Common Stock into which the GTE Common Stock will be converted pursuant to Article II hereof and the shares of Bell Atlantic Common Stock issuable upon the exercise of options pursuant to Section 2.8 hereof shall have been duly approved for listing on the NYSE, subject to official notice of issuance;

(h) *Pooling.* Unless unable to be delivered due to actions taken by the Parties which constitute mutually agreed commercially reasonable efforts or commercially reasonable efforts with respect to wireless operations, (i) Bell Atlantic shall have received a letter from PricewaterhouseCoopers L.L.P., dated as of the Closing Date, to the effect that the transactions contemplated hereby will qualify for pooling of interests accounting treatment; and (ii) GTE shall have received a letter from Arthur Andersen LLP, dated as of the Closing Date, to the effect that the transactions contemplated hereby will qualify for pooling of interests accounting treatment;

(i) *Consents Under GTE Agreements.* GTE shall have obtained the consent or approval of any person whose consent or approval shall be required under any agreement or instrument in order to permit the consummation of the transactions contemplated hereby except those which the failure to obtain would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic, including its ownership of GTE and its Subsidiaries after the Merger; and

(j) *Consents Under Bell Atlantic Agreements.* Bell Atlantic shall have obtained the consent or approval of any person whose consent or approval shall be required under any agreement or instrument in order to permit the consummation of the transactions contemplated hereby except those which the failure to obtain

would not, individually or in the aggregate, have a Material Adverse Effect on Bell Atlantic, including its ownership of GTE and its Subsidiaries after the Merger.

SECTION 8.2—Additional Conditions to Obligations of GTE. The obligations of GTE to effect the Merger are also subject to the fulfillment of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of Bell Atlantic contained in this Agreement shall be true and correct on the date hereof and (except to the extent such representations and warranties speak as of a date earlier than the date hereof) shall also be true and correct on and as of the Closing Date, except for changes permitted under Section 6.2 hereof or otherwise contemplated by this Agreement and the Option Agreements, with the same force and effect as if made on and as of the Closing Date, provided, however, that for purposes of this Section 8.2(a) only, such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct (without regard to materiality qualifiers contained therein), individually or in the aggregate, results or would reasonably be expected to result in a Material Adverse Effect on Bell Atlantic, either with or without including its ownership of GTE and its Subsidiaries after the Merger;

(b) *Agreements and Covenants.* Bell Atlantic and Merger Subsidiary shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by them on or before the Effective Time, provided, however, that for purposes of this Section 8.2 (b) only, such agreements and covenants shall be deemed to have been complied with unless the failure or failures of such agreements and covenants to have been complied with (without regard to materiality qualifiers contained therein), individually or in the aggregate, results or would reasonably be expected to result in a Material Adverse Effect on Bell Atlantic, either with or without including its ownership of GTE and its Subsidiaries after the Merger;

(c) *Certificates.* GTE shall have received a certificate of an executive officer of Bell Atlantic to the effect set forth in paragraphs (a) and (b) above;

(d) *Tax Opinion.* GTE shall have received an opinion of O'Melveny & Myers LLP, special counsel to GTE, dated as of the Closing Date, in form and substance reasonably satisfactory to GTE, substantially to the effect that, on the basis of the facts, representations and assumptions set forth in such opinion, the Merger constitutes a tax-free reorganization under Section 368 of the Code and therefore: (A) no gain or loss will be recognized for federal income tax purposes by Bell Atlantic, GTE or Merger Subsidiary as a result of the formation of Merger Subsidiary and the Merger; and (B) no gain or loss will be recognized for federal income tax purposes by the stockholders of GTE upon their exchange of GTE Common Stock solely for Bell Atlantic Common Stock pursuant to the Merger (except with respect to cash received in lieu of a fractional share interest in Bell Atlantic Common Stock). In rendering such opinion, O'Melveny & Myers LLP may require and rely upon representations and covenants including representations and covenants substantially in the form of those contained in the GTE officer's certificate and the Bell Atlantic officer's certificate attached hereto as Exhibit 7.17(b)(ii) and Exhibit 7.17(b)(i), respectively;

(e) *Affiliate Agreements.* GTE shall have received the agreements required by Section 7.14 hereof to be delivered by the Bell Atlantic "affiliates," duly executed by each "affiliate" of Bell Atlantic; and

(f) *Bylaws Amendment, Board of Directors.* Bell Atlantic shall have taken all such actions as shall be necessary so that (i) the Bylaws Amendment shall become effective not later than the Effective Time; and (ii) at the Effective Time, the composition of Bell Atlantic's Board shall comply with Section 7.12 hereof (assuming GTE has designated the GTE Directors as contemplated by Section 7.12 hereof).

SECTION 8.3—Additional Conditions to Obligations of Bell Atlantic. The obligations of Bell Atlantic to effect the Merger are also subject to the fulfillment of the following conditions:

(a) *Representations and Warranties.* The representations and warranties of GTE contained in this Agreement shall be true and correct on the date hereof and (except to the extent such representations and

warranties speak as of a date earlier than the date hereof) shall also be true and correct on and as of the Closing Date, except for changes permitted under Section 6.2 hereof or otherwise contemplated by this Agreement and the Option Agreements, with the same force and effect as if made on and as of the Closing Date, provided, however, that for purposes of this Section 8.3 (a) only, such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct (without regard to materiality qualifiers contained therein), individually or in the aggregate, results or would reasonably be expected to result in a Material Adverse Effect on GTE or Bell Atlantic (only after including its ownership of GTE and its Subsidiaries after the Merger);

(b) *Agreements and Covenants.* GTE shall have performed or complied with all agreements and covenants required by this Agreement to be performed or complied with by them on or before the Effective Time, provided, however, that for purposes of this Section 8.3 (b) only, such agreements and covenants shall be deemed to have been complied with unless the failure or failures of such agreements and covenants to have been complied with (without regard to materiality qualifiers contained therein), individually or in the aggregate, results or would reasonably be expected to result in a Material Adverse Effect on GTE;

(c) *Certificates.* Bell Atlantic shall have received a certificate of an executive officer of GTE to the effect set forth in paragraphs (a) and (b) above;

(d) *GTE Rights Agreement.* The rights issued pursuant to the GTE Rights Agreement shall not have become non-redeemable, exercisable, distributed or triggered pursuant to the terms of such Agreement and would not become so upon consummation of the transactions contemplated hereby;

(e) *Tax Opinion.* Bell Atlantic shall have received an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special counsel to Bell Atlantic, dated as of the Effective Time, in form and substance reasonably satisfactory to Bell Atlantic, substantially to the effect that, on the basis of the facts, representations and assumptions set forth in such opinion, the Merger constitutes a tax-free reorganization under Section 368 of the Code and therefore: (A) no gain or loss will be recognized for federal income tax purposes by Bell Atlantic, GTE or Merger Subsidiary as a result of the formation of Merger Subsidiary and the Merger; and (B) no gain or loss will be recognized for federal income tax purposes by the stockholders of Bell Atlantic as a result of the Merger, including the Certificate Amendment. In rendering such opinion, Skadden, Arps, Slate, Meagher & Flom LLP may require and rely upon representations and covenants including representations and covenants substantially in the form of those contained in the GTE officer's certificate and the Bell Atlantic officer's certificate attached hereto as Exhibits 7.17(b)(ii) and 7.17(b)(i) respectively.

(f) *Affiliate Agreements.* Bell Atlantic shall have received the agreements required by Section 7.14 hereof to be delivered by the GTE "affiliates," duly executed by each "affiliate" of GTE.

ARTICLE IX—TERMINATION, AMENDMENT AND WAIVER

SECTION 9.1—*Termination.* This Agreement may be terminated at any time before the Effective Time, in each case as authorized by the respective Board of Directors of GTE or Bell Atlantic:

(a) By mutual written consent of each of GTE and Bell Atlantic;

(b) By either GTE or Bell Atlantic if the Merger shall not have been consummated on or before July 26, 1999 (the "Initial Termination Date" and as such may be extended pursuant to this paragraph, the "Termination Date"); provided, however, that if on the Termination Date the conditions to the Closing set forth in Sections 8.1(b)(i), (c) or (d) shall not have been fulfilled, but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Termination Date shall be extended to March 31, 2000, (the "Extended Termination Date"); and provided further that if on the Extended Termination Date the conditions to the Closing set forth in Sections 8.1(b)(i), (c) or (d) shall not have been fulfilled, but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Termination Date shall

be extended to June 30, 2000 (the "Final Termination Date"), unless within five days prior to the Extended Termination Date any Party reasonably determines that it is substantially unlikely that the conditions to the Closing set forth in Sections 8.1(b)(i), (c) and (d) will be fulfilled by the Final Termination Date and delivers to the other Parties a notice to such effect. The right to terminate this Agreement under this Section 9.1(b) shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of any condition to be satisfied;

(c) By either GTE or Bell Atlantic if after the date hereof a court of competent jurisdiction or Governmental Entity shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the Parties shall use their commercially reasonable efforts to lift), in each case permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and the Option Agreements, and such order, decree, ruling or other action shall have become final and nonappealable;

(d) (i) by GTE, (A) if Bell Atlantic shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement, which breach or failure to perform (1) is incapable of being cured by Bell Atlantic prior to the Termination Date and (2) renders any condition under Section 8.1 or 8.2 incapable of being satisfied prior to the Termination Date, or (B) if a condition under Sections 8.1 or 8.2 to GTE's obligations hereunder cannot be satisfied prior to the Termination Date;

(ii) by Bell Atlantic, (A) if GTE shall have breached or failed to perform in any material respect any of its representations, warranties, covenants or other agreements contained in this Agreement, which breach or failure to perform (1) is incapable of being cured by GTE prior to the Termination Date and (2) renders any condition under Sections 8.1 and 8.3 incapable of being satisfied prior to the Termination Date, or (B) if a condition under Sections 8.1 or 8.3 to Bell Atlantic's obligations hereunder cannot be satisfied prior to the Termination Date;

(e) By either GTE or Bell Atlantic if the Board of Directors of the other or any committee of the Board of Directors of the other (i) shall fail to include in the Joint Proxy Statement its recommendation without modification or qualification that stockholders approve this Agreement and the Merger, in the case of GTE, or the Stock Issuance and the Certificate Amendment, in the case of Bell Atlantic Stock, (ii) shall withdraw or modify in any adverse manner its approval or recommendation of this Agreement or the Merger, in the case of GTE, or the Certificate Amendment or the Stock Issuance in the case of Bell Atlantic, (iii) shall fail to reaffirm such approval or recommendation upon such Party's request, (iv) shall approve or recommend any Alternative Transaction or (v) shall resolve to take any of the actions specified in this Section 9.1(e); or

(f) By either GTE or Bell Atlantic if any of the required approvals of the stockholders of GTE or of Bell Atlantic shall fail to have been obtained at a duly held stockholders meeting of either of such companies, including any adjournments thereof.

SECTION 9.2—Effect of Termination. (a) In the event of termination of this Agreement as provided in Section 9.1 hereof, and subject to the provisions of Section 10.1 hereof, this Agreement shall forthwith become void and there shall be no liability on the part of any of the Parties, except (i) as set forth in this Section 9.2 and in Sections 4.10, 4.16, 5.10, 5.16 and 10.3 hereof, and (ii) nothing herein shall relieve any Party from liability for any willful breach hereof.

(b) If this Agreement (i) is terminated by GTE pursuant to Section 9.1(e) hereof, (ii) could have been (but was not) terminated by GTE pursuant to Section 9.1(e) hereof and is subsequently terminated by Bell Atlantic or GTE pursuant to Section 9.1(f) because of the failure to obtain the Bell Atlantic Stockholder Approval, (iii)(A) could not have been terminated by GTE pursuant to Section 9.1(e) hereof but is subsequently terminated by Bell Atlantic or GTE pursuant to Section 9.1(f) because of the failure to obtain the Bell Atlantic Stockholder Approval, (B) prior to the Bell Atlantic Stockholders' Meeting there shall have been an offer or proposal for, an announcement of any intention with respect to (including the filing of a statement of beneficial

ownership on Schedule 13D discussing the possibility of or reserving the right to engage in), or any agreement with respect to, a transaction that would constitute an Alternative Transaction (as defined in Section 6.3(c) hereof, except that for the purposes of this Section 9.2(b), the applicable percentage in clause (i) of such definition shall be fifty percent (50%)) involving Bell Atlantic or any of Bell Atlantic's Subsidiaries; and (C) within 12 months after the termination of this Agreement, Bell Atlantic enters into a definitive agreement with any Third Party with respect to an Alternative Transaction, or (iv) is terminated by GTE as a result of Bell Atlantic's material breach of Section 7.1, Section 7.2(a) or Section 7.2(b) hereof which, in the case of Section 7.1 and Section 7.2(a) only, is not cured within 30 days after notice thereof to Bell Atlantic, Bell Atlantic shall pay to GTE a termination fee of one billion eight hundred million dollars (\$1,800,000,000) (the "GTE Termination Fee").

(c) If this Agreement (i) is terminated by Bell Atlantic pursuant to Section 9.1(e) hereof, (ii) could have been (but was not) terminated by Bell Atlantic pursuant to Section 9.1(e) hereof and is subsequently terminated by GTE or Bell Atlantic pursuant to Section 9.1(f) because of the failure to obtain the GTE Stockholder Approval, (iii)(A) could not have been terminated by Bell Atlantic pursuant to Section 9.1(e) hereof but is subsequently terminated by GTE or Bell Atlantic pursuant to Section 9.1(f) because of the failure to obtain the GTE Stockholder Approval, (B) prior to the GTE Stockholders' Meeting there shall have been an offer or proposal for, an announcement of any intention with respect to (including the filing of a statement of beneficial ownership on Schedule 13D discussing the possibility of or reserving the right to engage in), or any agreement with respect to, a transaction that would constitute an Alternative Transaction (as defined in Section 6.3(c) hereof, except that for the purposes of this Section 9.2(c), the applicable percentage in clause (i) of such definition shall be fifty percent (50%)) involving GTE or any of GTE's Subsidiaries, and (C) within 12 months after the termination of this Agreement, GTE enters into a definitive agreement with any Third Party with respect to an Alternative Transaction, or (iv) is terminated by Bell Atlantic as a result of GTE's material breach of Section 7.1, Section 7.2(c) or Section 7.2(d) hereof which, in the case of Section 7.1 and Section 7.2(c) only, is not cured within 30 days after notice thereof to GTE, GTE shall pay to Bell Atlantic a termination fee of one billion eight hundred million dollars (\$1,800,000,000) (the "Bell Atlantic Termination Fee").

(d) Each termination fee payable under Sections 9.2(b) and (c) above shall be payable in cash, payable no later than one business day following the delivery of notice of termination to the other Party, or, if such fee shall be payable pursuant to clause (iii) of either of Section 9.2(b) or (c), such fee shall be payable no later than one business day following the day such Party enters into the definitive agreement referenced in such clause (iii).

(e) GTE and Bell Atlantic agree that the agreements contained in Sections 9.2(b) and (c) above are an integral part of the transactions contemplated by this Agreement and the Option Agreements and constitute liquidated damages and not a penalty. In the event of any dispute as to whether any fee due under such Sections 9.2(b) and (c) is due and payable, the prevailing party shall be entitled to receive from the other Party the costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, relating to such dispute. Interest shall be paid on the amount of any unpaid fee at the publicly announced prime rate of Citibank, N.A. from the date such fee was required to be paid.

SECTION 9.3—Amendment. This Agreement may be amended by the Parties pursuant to a writing adopted by action taken by all of the Parties at any time before the Effective Time; provided, however, that, after approval of the Merger Agreement by the stockholders of GTE or Bell Atlantic, whichever shall occur first, no amendment may be made which would (a) alter or change the amount or kinds of consideration to be received by the holders of GTE Common Stock upon consummation of the Merger, (b) alter or change any term of the Certificate of Incorporation of GTE or the Certificate of Incorporation of Bell Atlantic (except for the implementation at the Effective Time of the Certificate Amendment) or (c) alter or change any of the terms and conditions of this Agreement if such alteration or change would adversely affect the holders of any class or series of securities of GTE or Bell Atlantic. This Agreement may not be amended except by an instrument in writing signed by the Parties.

SECTION 9.4—*Waiver*. At any time before the Effective Time, any Party may (a) extend the time for the performance of any of the obligations or other acts of the other Parties, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a Party to any such extension or waiver shall be valid only as against such Party and only if set forth in an instrument in writing signed by such Party.

ARTICLE X—GENERAL PROVISIONS

SECTION 10.1—*Non-Survival of Representations, Warranties and Agreements*. The representations, warranties and agreements in this Agreement shall terminate at the Effective Time or upon the termination of this Agreement pursuant to Section 9.1 hereof, as the case may be, except that (a) the agreements set forth in Article I and Sections 2.2, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 7.8, 7.9 and 7.12 hereof shall survive the Effective Time indefinitely, (b) the agreements and representations set forth in Sections 4.10, 4.16, 5.10, 5.16, 7.5 (b), 9.2 and 10.3 hereof shall survive termination indefinitely and (c) nothing contained herein shall limit any covenant or Agreement of the Parties which by its terms contemplates performance after the Effective Time.

SECTION 10.2—*Notices*. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed to have been duly given or made as of the date of receipt and shall be delivered personally or mailed by registered or certified mail (postage prepaid, return receipt requested), sent by overnight courier or sent by telecopy, to the Parties at the following addresses or telecopy numbers (or at such other address or telecopy number for a Party as shall be specified by like notice):

(a) if to GTE:

GTE Corporation
One Stamford Forum
Stamford, Connecticut 06904
Attention: William P. Barr
Executive Vice President-Government
and Regulatory and General Counsel
Telecopy No.: (203) 965-3464

with a copy to:

O'Melveny & Myers LLP
153 East 53rd Street, 54th Floor
New York, New York 10066
Attention: Jeffrey J. Rosen, Esq.
Telecopy No.: (212) 326-2061

(b) if to Bell Atlantic:

Bell Atlantic Corporation
1095 Avenue of the Americas, 39th Floor
New York, New York 10036
Attention: Vice President and General Counsel
Telecopy No.: (212) 597-2587

with a copy to:

Bell Atlantic Network Services, Inc.
1717 Arch Street, 32N
Philadelphia, Pennsylvania 19103
Attention: Assistant General Counsel—Mergers and Acquisitions
Telecopy No.: (215) 963-9195

and

Skadden, Arps, Slate, Meagher & Flom LLP
919 Third Avenue
New York, New York 10022-3897
Attention: Peter Allan Atkins, Esq.
Telecopy No.: (212) 735-2000

SECTION 10.3—Expenses. Except as otherwise provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such costs and expenses, except that those expenses incurred in connection with the printing of the Joint Proxy Statement and the Registration Statement, as well as the filing fees related thereto and any filing fee required in connection with the filing of Premerger Notifications under the HSR Act, shall be shared equally by GTE and Bell Atlantic. GTE will pay any real property transfer or similar Taxes imposed on the stockholders of GTE in connection with this Agreement and the transactions contemplated hereby.

SECTION 10.4—Certain Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "1933 Act" means the Securities Act of 1933, as the same may be amended from time to time, and "Exchange Act" means the Securities Exchange Act of 1934, as the same may be amended from time to time.

(b) "affiliate" of a person means a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned person.

(c) "commercially reasonable efforts" shall mean those efforts necessary or advisable to advance the interests of the Parties in achieving the purposes and specific requirements and satisfying the conditions of this Agreement, provided that such efforts will not require or include either expense or conduct not ordinarily incurred or engaged in by Parties seeking to implement agreements of this type unless part of a separate mutual understanding of the Parties not contained in this Agreement whether reached before or after the Agreement is executed.

(d) "control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of stock, as trustee or executor, by contract or credit arrangement or otherwise.

(e) "HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as the same may be amended from time to time.

(f) "knowledge" of any Party shall mean the actual knowledge of the executive officers of such Party.

(g) "Material Adverse Effect" means any change in or effect on the business of the referenced corporation or any of its Subsidiaries that is or will be materially adverse to the business, operations (including the income statement), properties (including intangible properties), condition (financial or otherwise), assets, liabilities or regulatory status of such referenced corporation and its Subsidiaries taken as a whole, but shall not include (I) the effects of changes that are generally applicable in (A) the telecommunications industry, (B) the United States economy or (C) the United States securities markets if, in any of (A), (B) or (C), the effect on GTE or Bell Atlantic, determined without including its ownership of GTE after the Merger, (as the case may be) and its respective Subsidiaries, taken as a whole, is not materially disproportionate relative to the effect on the other and its Subsidiaries, taken as a whole. All references to Material Adverse Effect on Bell Atlantic or its Subsidiaries contained in Article IV, V or VI of this Agreement shall be deemed to refer solely to Bell Atlantic and its Subsidiaries without including its ownership of GTE and its Subsidiaries after the Merger.

(h) "Material Investment" means (a) as to GTE, any person which GTE directly or indirectly holds the stock of, or other equity interest in, provided the lesser of the fair market value or book value of such interest exceeds \$100 million, excluding, however, any person which is a Subsidiary of GTE; and (b) as to Bell Atlantic, any person which Bell Atlantic directly or indirectly holds the stock of, or other equity interest in, provided the lesser of the fair market value or book value of such interest exceeds \$100 million, excluding, however, any Person which is a Subsidiary of Bell Atlantic.

(i) "person" means an individual, corporation, partnership, association, trust, estate, limited liability company, labor union, unincorporated organization, entity or group (as defined in the Exchange Act).

(j) "POR" means the Plan of Reorganization approved by the United States Court for the District of Columbia on August 5, 1983 and the Agreement Concerning Contingent Liabilities, Tax Matters and Termination of Certain Agreements dated as of November 1, 1983, as amended and supplemented.

(k) "Significant Subsidiary" with respect to GTE means any Subsidiary which on the date of determination is a "significant subsidiary" within the meaning of Rule 1-02(w) of Regulation S-X promulgated under the Exchange Act and, with respect to Bell Atlantic means any Subsidiary which on the date of determination is a "significant subsidiary" within the meaning of Rule 1-02(w) of Regulation S-X promulgated under the Exchange Act.

(l) "Subsidiary", "GTE Subsidiary", or "Bell Atlantic Subsidiary" means any corporation or other legal entity of which GTE or Bell Atlantic, as the case may be (either alone or through or together with any other Subsidiary or Subsidiaries), owns, directly or indirectly, more than 50% of the stock or other equity interests the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity. For purposes of this Agreement, Grupo Iusacell S.A. de C.V. shall be deemed to be a Material Investment, and not a Subsidiary, of Bell Atlantic.

SECTION 10.5—*Headings*. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 10.6—*Severability*. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the maximum extent possible.

SECTION 10.7—*Entire Agreement; No Third-Party Beneficiaries*. This Agreement, the Nondisclosure Agreement and the Stock Option Agreements constitute the entire agreement and, except as expressly set forth herein, supersedes any and all other prior agreements and undertakings, both written and oral, among the Parties, or any of them, with respect to the subject matter hereof and, except for Section 7.8 (Indemnification, Directors' and Officers' Insurance) and Section 7.12 (Post-Merger Bell Atlantic Board of Directors), is not intended to confer upon any person other than GTE, Bell Atlantic, and Merger Subsidiary and, after the Effective Time, their respective stockholders, any rights or remedies hereunder.

SECTION 10.8—*Assignment*. This Agreement shall not be assigned by operation of law or otherwise.

SECTION 10.9—*Governing Law*. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware applicable to contracts executed in and to be performed entirely within that State, without regard to the conflicts of laws provisions thereof; provided that the Merger shall be governed by the laws of the State of New York applicable to contracts executed in and to be performed entirely within that State, without regard to the conflicts of laws provisions thereof.

SECTION 10.10—*Counterparts.* This Agreement may be executed in two or more counterparts, and by the different Parties in separate counterparts, each of which when executed shall be deemed to be an original, but all of which shall constitute one and the same Agreement.

SECTION 10.11—*Interpretation.*

(a) Whenever the words "include", "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation."

(b) Words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

(c) A reference to any party to this Agreement or any other agreement or document shall include such party's successors and permitted assigns.

(d) A reference to any legislation or to any provision of any legislation shall include any modification or re-enactment thereof, any legislative provision substituted therefor and all regulations and statutory instruments issued thereunder or pursuant thereto.

(e) All references to "\$" and dollars shall be deemed to refer to United States currency unless otherwise specifically provided.

IN WITNESS WHEREOF, GTE, Bell Atlantic and Beta Gamma Corporation have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

GTE CORPORATION

By: /s/ CHARLES R. LEE
Name: Charles R. Lee
Title: Chairman and Chief Executive Officer

By: /s/ MARIANNE DROST
Name: Marianne Drost
Title: Secretary

BELL ATLANTIC CORPORATION

By: /s/ IVAN SEIDENBERG
Name: Ivan Seidenberg
Title: Vice Chairman, President and Chief Executive Officer

BETA GAMMA CORPORATION

By: /s/ IVAN SEIDENBERG
Name: Ivan Seidenberg
Title: President and Chief Executive Officer

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State of New York }
Department of State } ss:

I hereby certify that the annexed copy has been compared with the original document filed by the Department of State and that the same is a true copy of said original.

Witness my hand and seal of the Department of State on **NOVEMBER 27, 2002**



A handwritten signature in black ink, appearing to read "Ann A. S.", is written over the printed title.

Secretary of State

F000630000240

CERTIFICATE OF MERGER

OF

BETA GAMMA CORPORATION

WITH AND INTO

GTE CORPORATION

UNDER SECTION 904 OF THE BUSINESS CORPORATION LAW

Beta Gamma Corporation, a New York corporation, and GTE Corporation, a New York corporation, hereby certify to the following relating to the merger of Beta Gamma Corporation with and into GTE Corporation (the "Merger"), with GTE Corporation being the surviving corporation in the Merger:

1. The name of each constituent corporation is as follows:

Beta Gamma Corporation
(a New York corporation)

GTE Corporation
(a New York corporation, originally incorporated
as General Telephone Corporation on February 25, 1935)

2. The name of the surviving corporation is GTE Corporation (the "Surviving Corporation") and following the Merger its name shall be GTE Corporation

3 As to each constituent corporation, the designation and number of outstanding shares of each class and series and the voting rights thereof is as follows:

Name of Corporation	Designation, par value and number of shares in each class or series outstanding	Class or series of shares entitled to vote	Shares entitled to vote as a class or series
Beta Gamma Corporation	Common No Par Value 1,000	Common	..
GTE Corporation	Common Par Value \$0.05 963,647,678	Common	

4 The Certificate of Incorporation of the Surviving Corporation shall not be amended pursuant to the Merger.

5 The date when the Certificate of Incorporation of each constituent corporation was filed by the Department of State is as follows:

<u>NAME OF CORPORATION</u>	<u>DATE OF INCORPORATION</u>
Beta Gamma Corporation	July 24, 1998
GTE Corporation	February 25, 1955

6 An Agreement and Plan of Merger (the "Merger Agreement") dated as of July 27, 1998, among Bell Atlantic Corporation (the sole shareholder of Beta Gamma Corporation), Beta Gamma Corporation and GTE Corporation was adopted by each New York constituent corporation in the following manner:

(a) As to Beta Gamma Corporation, by its Board of Directors and by the unanimous written consent of its sole shareholder in accordance with the provisions of Section 615 of the Business Corporation Law.

(b) As to GTE Corporation, by its Board of Directors and by a vote of at least two-thirds of the issued and outstanding shares entitled to vote in accordance with the provisions of Section 903 of the Business Corporation Law.

IN WITNESS WHEREOF, each of Beta Gamma Corporation and GTE Corporation has caused this Certificate of Merger to be duly signed on June 30, 2000.

BETA GAMMA CORPORATION

By: Ivan G. Seidenberg
Name: Ivan G. Seidenberg
Title: President and Chief Executive Officer

GTE CORPORATION

By: Charles R. Lee
Name: Charles R. Lee
Title: Chairman and Chief Executive Officer

1000630000240

CERTIFICATE OF MERGER

OF

UNDER SECTION 704 OF THE BUSINESS CORPORATION LAW

FILED BY: Sheldon Arps state member C.Planet

One Redwin Square

P.O. Box 436

Washington DC 20002-0436

FILED

NO. 114 OF 01 DE 1997

STATE OF NEW YORK
DEPARTMENT OF STATE
FILED JUN 30 2000

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CERTIFICATE OF INCORPORATION
OF
BELL ATLANTIC CORPORATION

FILED

OCT 7 1983

10 AM

Albert C. Keaton
SECRETARY OF STATE

1. The name of the corporation is Bell Atlantic Corporation.
2. The address of its registered office in the State of Delaware is 100 West Tenth Street in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.
3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware, including, but not limited to, manufacturing, processing, acquiring, owning, using, dealing in and disposing of personal property of every class and description (including holding, owning and disposing of stock or other ownership interests in other entities), engaging in research and development, furnishing services, and acquiring, owning, using, dealing in and disposing of real property of any nature whatsoever and any interest therein.
4. The total number of shares of all classes of stock which the corporation shall have authority to issue is 275 million, of which (i) 250 million shares shall be shares of Common Stock of the par value of \$1.00 per share (hereinafter called "Common Stock"), (ii) 12.5 million shares shall be shares of Series Preferred Stock of the par value of \$1.00 per share (hereinafter called "Series Preferred Stock") and (iii) 12.5 million shares shall be shares

of Series Preference Stock of the par value of \$1.00 per share (hereinafter called "Series Preference Stock").

The Board of Directors shall have the full authority permitted by law to fix by resolution dividend rates, redemption and sinking fund provisions and liquidation values; full, limited or no voting powers; and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, of any series of the Series Preferred Stock and any series of the Series Preference Stock that may be desired.

5. The name and mailing address of the incorporator are as follows:

R. Victor Bernstein
195 Broadway
New York, New York 10007

6. The business and affairs of the corporation shall be managed under the direction of the Board of Directors.

7. The Board of Directors is expressly authorized from time to time to make, alter or repeal the by-laws of the corporation.

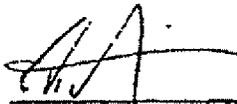
8. Elections of directors need not be by written ballot unless the by-laws of the corporation shall so provide.

9. No action which may be taken by holders of Common Stock, either alone or with any other class of stock then entitled to vote with the Common Stock, at any annual or special meeting of stockholders may be taken without a

meeting unless a consent in writing, setting forth the action so taken, shall be signed by the holders of all outstanding stock entitled to vote at a meeting for such purpose.

10. The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

THE UNDERSIGNED, being the incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, does make this certificate, hereby declaring and certifying that this is his act and deed and the facts herein stated are true, and accordingly has set hereunto his hand this 6th day of October, 1983.



R. Victor Bernstein

CERTIFICATE OF OWNERSHIP AND MERGER

MERGING

VERIZON COMMUNICATIONS, INC.
(a Delaware corporation)

INTO

BELL ATLANTIC CORPORATION
(a Delaware corporation)

Bell Atlantic Corporation, a corporation organized and existing under the laws of Delaware,

DOES HEREBY CERTIFY:

FIRST: That this corporation was incorporated on the 7th day of October, 1983, pursuant to the General Corporation Law of the State of Delaware.

SECOND: That this corporation owns all of the outstanding shares of the stock of Verizon Communications, Inc., a corporation incorporated on the 7th day of December, 1999, pursuant to the General Corporation Law of the State of Delaware.

THIRD: That this corporation, by the following resolutions of its Board of Directors duly adopted at a meeting held on August 3, 2000, determined to merge with and into itself said Verizon Communications, Inc.:

RESOLVED, that, pursuant to Section 253 of the General Corporation Law of the State of Delaware ("DGCL"), the Corporation is hereby authorized and directed to merge with and into itself Verizon Communications, Inc., a Delaware corporation and a wholly-owned subsidiary of the Corporation (the "Subsidiary"), and assume all the obligations of the Subsidiary;

RESOLVED, that, in connection with and upon the effectiveness of the aforementioned merger, the Corporation is hereby authorized to change its corporate name by amending Article 1 of the Restated Certificate of Incorporation of the Corporation to read as follows:

1. Corporate Name. The name of the corporation is Verizon Communications Inc. (the "Corporation").

RESOLVED, that the aforementioned merger shall become effective upon filing of a Certificate of Ownership and Merger with the Secretary of State of the State of Delaware;

RESOLVED, that the proper officer of the Corporation is hereby authorized and directed to prepare and execute, in the name and on behalf of the Corporation, a Certificate of Ownership and Merger setting forth a copy of the resolutions to merge the Subsidiary with and into the Corporation and for the Corporation to assume all of the liabilities and obligations of the Subsidiary, and the date of the adoption thereof, and to cause the same to be filed with the Secretary of State of the State of Delaware;

RESOLVED, that, subsequent to the aforementioned filing of the Certificate of Ownership and Merger, pursuant to Section 245 of the DGCL, the proper officer of the Corporation is hereby authorized, in the name of and on behalf of the Corporation, to prepare, execute and cause to be filed with the Secretary of State of the State of Delaware a Restated Certificate of Incorporation of the Corporation restating and integrating the Certificate of Incorporation as theretofore amended; and

RESOLVED FURTHER, that the proper officers of the Corporation are hereby authorized to take or cause to be taken any and all actions as are necessary or appropriate to effectuate the provisions of each of the foregoing resolutions.

FOURTH: Anything herein or elsewhere to the contrary notwithstanding, this merger may be amended or terminated and abandoned by the Board of Directors of Bell Atlantic Corporation at any time prior to the date of filing the Certificate of Ownership and Merger with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, said Bell Atlantic Corporation has caused this Certificate to be signed by Marianne Drost, its Senior Vice President, Deputy General Counsel and Corporate Secretary, this 21st day of September, 2000.

BELL ATLANTIC COPORATION

By Marianne Drost

Marianne Drost
Senior Vice President, Deputy General
Counsel and Corporate Secretary

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION

Verizon, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware.

DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of said corporation, at a meeting duly held, adopted a resolution proposing and declaring advisable the following amendment to the Certificate of Incorporation of said corporation:

RESOLVED, that the Certificate of Incorporation of Verizon, Inc. be amended by changing the Article I thereof so that, as amended, said Article shall be and read as follows:

"ARTICLE 1.

NAME

The name of the Corporation is Verizon Communications, Inc., referred to in this Certificate of Incorporation as the Corporation."

SECOND: That in lieu of a meeting and vote of stockholders, the stockholders have given unanimous written consent to said amendment in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware.

THIRD: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Sections 242 and 228 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned has caused this certificate to be signed by
Paul B. Plunkett, its President, this 20th day of March, 2000.

VERIZON, INC.

By: 
Paul B. Plunkett
Its: President

0564469 01

**CERTIFICATE OF INCORPORATION
OF
VERIZON, INC.**

The undersigned, of full age, for the purpose of forming a corporation under and pursuant to the Delaware General Corporation Law, and laws amendatory thereof and supplementary thereto, hereby creates a body corporate and adopts the following Certificate of Incorporation:

ARTICLE 1.

NAME

The name of the Corporation is Verizon, Inc., referred to in this Certificate of Incorporation as the "Corporation."

ARTICLE 2.

REGISTERED OFFICE AND REGISTERED AGENT

The address of the registered office of the Corporation in the State of Delaware shall be 1209 Orange Street, Wilmington, Delaware 19801, in the County of New Castle. The name of the Corporation's registered agent at such address is The Corporation Trust Company.

ARTICLE 3.

PURPOSES

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE 4.

TERM

The Corporation shall have perpetual existence.

ARTICLE 5.

CAPITAL STOCK

The shares of capital stock of the Corporation shall be subject to the following:

- (a) The Corporation is authorized to issue one thousand (1,000) shares of One Cent (\$.01) per share par value capital stock, to be held, sold, and paid for at such times and in such manner as the Board of Directors may from time to time determine, in accordance with the laws of the State of Delaware.

- (b) All shares of the Corporation are common shares entitled to vote and shall be of one class and one series having equal rights and preferences in all matters. Each stockholder shall have one (1) vote for each share of stock held.
- (c) Cumulative voting for directors is not permitted.
- (d) The stockholders of the Corporation shall not have preemptive rights.

ARTICLE 6.

INCORPORATOR

The name and mailing address of the incorporator of the Corporation are as follows:

Paul B. Plunkett
Larkin, Hoffman, Daly & Lindgren, Ltd.
1500 Norwest Financial Center
7900 Xerxes Avenue South
Minneapolis, Minnesota 55431

ARTICLE 7.

DIRECTORS

In furtherance and not in limitation of the rights and powers conferred by statute, the following provisions regarding the rights and powers of the Corporation, the Board of Directors and stockholders shall apply to the Corporation:

- (a) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.
- (b) The Board of Directors shall consist of the number of directors provided for in the Bylaws.
- (c) Elections of directors need not be by written ballot unless the Bylaws of the Corporation so provide.
- (d) No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders; (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) under Section 174 of the Delaware General Corporation Law; or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this provision shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of the director occurring prior to such amendment or repeal. If the laws of the State of Delaware are hereafter changed to permit further

elimination or limitation of the liability of directors, then the liability of each director of the Corporation shall thereupon be eliminated or limited to the fullest extent then permitted by law.

(e) The Board of Directors shall have concurrent power with the stockholders to adopt, alter, amend or repeal the Bylaws of the Corporation.

(f) In addition to the powers and authority herein or by law expressly conferred upon them, the Board of Directors is hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the laws of the State of Delaware, this Certificate of Incorporation and any Bylaws adopted by the stockholders; provided, however, that no Bylaws hereafter adopted by the stockholders shall invalidate any prior act of the Board of Directors which would have been valid if such Bylaws had not been adopted.

(g) Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

ARTICLE 8.

BUSINESS COMBINATIONS

The Corporation expressly elects not to be governed by §203 of the General Corporation Law of the State of Delaware.

ARTICLE 9.

AMENDMENT OF ARTICLES

The Corporation reserves the right at any time, and from time to time, to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article.

I, the undersigned, being the incorporator for the purpose of forming a corporation under the laws of the State of Delaware, do make, file and record this Certificate of Incorporation, and do certify that the facts herein stated are true, and accordingly I have hereunto set my hand this 6th day of December, 1999.



Paul B. Phunkett, Incorporator

PUBLIC MEETING

New York State Department of Health

Purpose: To present the findings of a study of cancer in the Jericho Gardens area of Westbury, Nassau County

When: Wednesday, July 14, 2004
7:00 p.m.

Where: Hicksville Middle School
215 Jerusalem Avenue
Hicksville, NY 11801

The New York State Department of Health (NYSDOH) has completed its review of cancer incidence in the Jericho Gardens area of Westbury (ZIP Code 11590). This study was requested due to concerns about the former Sylvania Electric Products Facility, located adjacent to this community in ZIP Code 11801 (Hicksville). NYSDOH, in cooperation with the New York State Department of Environmental Conservation (NYSDEC), has arranged a public meeting to share the findings of this study with the community. Copies of the full report will be available at the meeting.

In brief, the study examined patterns in newly diagnosed cases of cancer among residents of this community during the years 1980 through 1999. A total of 71 cancers were identified over this 20-year time period, including 34 in males and 37 in females. Cancers of the prostate, lung and colon and rectum are the most frequently diagnosed types of cancer among males in all of New York State, and cancers of the breast, lung and colon and rectum are the most frequently diagnosed types of cancer among females. In the Jericho Gardens area, the findings were similar. The most frequently diagnosed types of cancers in males were cancers of the lung, colon and rectum, and prostate. The most frequently diagnosed types of cancers among females were cancers of the breast, lung and colon and rectum. Other types of cancer were also found, but the patterns of these were not unusual. The ages of the people diagnosed with cancer were similar to what is usually found, with the majority of people diagnosed at age 65 or older. Additional analysis showed that the number of people diagnosed with cancer over this 20-year time period was similar to the approximate number expected based on the number of people of different ages living in the area. This review provided no evidence of any unusual patterns of cancer among people living in the Jericho Gardens community.

If you have any questions about the cancer study, please call Ms. Aura Weinstein of the NYSDOH at (518) 474-2354.

NYSDEC Site Update: Former Sylvania Electric Products Facility

The Former Sylvania Electric Products Facility, located at 70, 100, and 140 Cantiague Rock Road in Hicksville, manufactured nuclear fuel rods made of uranium and thorium between 1952 and 1966. Wastes from the manufacturing processes were reportedly disposed of on site. The site is currently being investigated and remediated under voluntary cleanup agreements between GTE Operations Support Incorporated and the New York State Department of Environmental Conservation (NYSDEC).

The extent of soil contamination was initially defined during investigations conducted from 1999 through 2002. Results of these investigations and the plans for soil remediation were provided at public meetings that took place in May 2001 and December 2002. The primary contaminants found in the investigations are uranium, thorium, tetrachloroethene (PCE), trichloroethene (TCE) and nickel.

Soil excavation is currently in progress. The initial phase of the soil excavation will be completed before the end of 2004. However, additional investigation is ongoing and it appears that additional soil excavation under certain buildings will be performed in the future. Measures are in place to ensure that workers, the general public and the environment are adequately protected during the remedial activities.

The off-site groundwater is still under investigation. The primary contaminant in the on-site and off-site Sylvania groundwater plume is PCE, a chlorinated solvent formerly used at the site for degreasing. The analytical data show that the radionuclides (uranium and thorium) have primarily remained within a few feet of the Sylvania site. Nickel has been detected in some of the on-site and off-site groundwater, and some of this is apparently attributable to the Sylvania site, although an additional source of nickel north of the site is suspected.

The solvent plume originating from the Sylvania site combines with a similar plume that originates at the adjacent General Instruments (GI) site. The GI plume consists primarily of TCE and dichlorobenzene, two other commonly used chlorinated solvents. There are apparently other, as yet unidentified, contributors in the area to this solvent plume. An off-site groundwater treatment system is currently being constructed to treat a portion of the plume attributable to the GI site.

A public supply well field for the Hicksville Water District is located just over one mile downgradient of the Sylvania and GI sites. PCE and TCE have been detected in the raw well water at this well field, although, since the groundwater investigation has not been completed, it is not possible at this time to determine the source of this contamination. The well water is treated at the well field to remove volatile organic compounds, including PCE and TCE, prior to distribution to the public, making the well water safe to drink. The drinking water is sampled periodically to ensure that it meets strict state and federal regulations. Sampling indicates that these wells are not impacted by nickel or radiological contaminants.

For Additional Site Related Information

Chemical Issues: Walter Parish, NYSDEC at (631) 444-0241

Radiological Issues: Barbara Youngberg, NYSDEC at (518) 402-8579

**ADDRESS-SPECIFIC REVIEW OF CANCER INCIDENCE
IN THE JERICHO GARDENS COMMUNITY
TOWN OF OYSTER BAY, NASSAU COUNTY, NEW YORK, 1980-1999**

BACKGROUND

In May 2001, the Cancer Surveillance Program of the Bureau of Chronic Disease Epidemiology and Surveillance, New York State Department of Health, received a request from a concerned citizen to conduct a review of cancer incidence. Of interest was the area around the former Sylvania Electric Products facility, specifically the Jericho Gardens community, which is located adjacent to the site in ZIP Code 11590 (Westbury) in Nassau County. The citizen was concerned over possible health effects from potential exposures to materials from the site.

The former Sylvania Electric Products facility, located at 70, 100, and 140 Cantiague Rock Road in Hicksville, manufactured nuclear fuel rods made of uranium and thorium between 1952 and 1966. Wastes from the manufacturing processes were reportedly disposed of on site. The site is currently being investigated and remediated under voluntary cleanup agreements between GTE Operations Support Incorporated and the New York State Department of Environmental Conservation (NYSDEC).

In response to the citizen's request, an address-specific review of cancer incidence was conducted in the Jericho Gardens community for a 20-year time period, 1980 through 1999. This report describes the findings of the Cancer Surveillance Program's review for that area.

METHODS

Study Plan

An address-specific review involves the identification of cancers diagnosed among residents at specified addresses during a given time period, followed by the review of the characteristics of those cancer cases in order to identify any unusual patterns. Characteristics reviewed include the type (anatomical site) of cancer, year of its diagnosis, and age of the person at the time of diagnosis. Patterns that may be considered unusual include: 1) an unusual number of cases of the same type of cancer; 2) two or more cases of a particularly rare type of cancer; 3) several cases of cancer among persons in age groups where that cancer is not commonly found; 4) a large number of cases in a short time span.

Study Area and Time Period

People were included in this study if they lived at an address within the Jericho Gardens community at the time they were diagnosed with cancer. Streets included Amber Court, Barry Drive, Bonnie Drive, Cantiague Lane, Cantiague Rock Road, Hunters Lane, Jackie Drive, Laura Drive, Marilyn Lane, Marshall Lane, Maxwell Drive, Neil Court, Robbins Lane, Schultz Street, Sunnyside Lane or Wedgewood Drive (see map). The time period of the review was 1980 through

1999, the most recent 20-year period for which cancer reporting was considered complete for analysis within small geographic areas at the time the study was initiated.

Identification of Observed Incident Cancers

In order to proceed with this review, it was necessary to identify all cases of cancer diagnosed among people residing in the study area between 1980 and 1999. The source for these data was the New York State Cancer Registry. The Cancer Registry contains information on all cases of cancer reported to the New York State Department of Health, as mandated by law. To identify all cancer cases within the study area, a listing of all cancer cases with ZIP Code 11590 was obtained from the Cancer Registry. Each street address was then examined individually to determine whether that individual lived on any of the streets in the study area at the time of diagnosis.

FINDINGS

A total of 71 cancers (34 in males and 37 in females) were identified among all males and females residing in the study area between 1980 and 1999. The most frequently diagnosed types of cancer observed among the males in the study area included lung and bronchus with eight cases observed; colon and rectum with eight cases observed; and prostate with seven cases observed. Prostate, lung and bronchus, and colon and rectum are the most common cancers diagnosed among men in New York State.

The most frequently diagnosed types of cancer observed among the females in the study area included breast with 13 cases observed; lung and bronchus with six cases observed and colon and rectum with fewer than six cases observed. (To protect patient confidentiality, we are not able to disclose the exact number of cancer cases identified in an area when there are fewer than six observed cases). Breast, lung and bronchus, and colon and rectum are the most common cancers diagnosed among women in New York State.

Other types of cancer identified were cancers of the kidney and renal pelvis and lymphomas, along with some less common cancers. While some rare types of cancer were found there was no more than one case of any single particularly rare type.

Cancer occurs at all ages, but most often in middle-aged and older people. The ages of the individuals diagnosed with cancer in the study area ranged from the 20s to the 80s. The ages were generally within the ranges in which we would expect to find the cancers that the individuals were diagnosed with. More than 60% of the people diagnosed with cancer were 65 years of age or over.

Numbers of cases were examined for 5-year intervals. No unusual number of cases was found in a short time period. A slight increase was found in the total number of cases diagnosed over each of the 5-year intervals. A similar increase has been seen throughout New York State and the nation. In general, the number of people diagnosed with cancer has increased over the past 40 years. Most of this is due to the increase in the population and because people are living longer.

DISCUSSION

As mentioned above, there are certain features we look for when assessing whether unusual patterns of disease may be present. The first is an unusual number of cases of the same type of cancer. The types of cancer seen among the residents differed and were generally those most frequently diagnosed in adults in New York State. Another indication of an unusual disease pattern is two or more cases of a particularly rare type of cancer. There were 19 different types of cancer diagnosed among residents of the study area. Among those were instances of rare cancers, but no more than one case of any single rare type of cancer. This is similar to what we would expect to find in communities throughout the state.

Other features examined included the age at which cancer was diagnosed, and variations in diagnosis over time. The ages at which the residents were diagnosed with cancer were largely typical for the types of cancer they had. The cancers were diagnosed throughout the twenty-year time span, with no obvious increasing or decreasing trend when examined from year-to-year. A slight increase was found in the total number of cases diagnosed over each of the 5-year intervals. The increase is likely due to the increase in the population and because people are living longer.

Examining cancer cases identified among residents of the study area can tell us if there are any unusual patterns in the cancers diagnosed, but it cannot tell us whether the total number of cancers diagnosed may be high (or low). To do this, we would have to compute the total number of cancer cases that we would expect to be diagnosed, given the population of the area. Since the area of concern was defined in terms of streets and not standard census units such as towns or census tracts, it is not possible to obtain information on the actual population of the area studied. As an approximation, we identified a group of U.S. Census-defined blocks, which are analogous to city blocks, that contain the majority of the streets in the Jericho Gardens area. Block-level population data by age and sex are available for the 1990 and 2000 U.S. Censuses. The populations of these census blocks were then used to calculate the number of cancers that would be expected to occur over the period from 1980 to 1999 if people in this area developed cancer at the same rate as people in all of New York State, outside of New York City. Based on our calculations, we found that 40 cases of cancer would have been expected to have been diagnosed among males over this 20-year time period, compared to 34 actually identified. A total of 38 cases of cancer would have been expected to have been diagnosed among females, compared to 37 actually identified. There is therefore no indication that the area is experiencing a greater overall incidence of cancer.

A limitation of the study is the fact that cancer cases were identified only among persons who both resided in the study area and were diagnosed with cancer during the period 1980 through 1999. Migration, that is movement of people into or out of the study area, could not be taken into account.

This review thus provides no evidence of any unusual patterns of cancer among persons living in the Jericho Gardens community.

General Cancer Information

Cancer may result from either genetic or environmental influences or an interaction of both genetics and environment. Examples of possible environmental influences include diet, smoking, and other lifestyle factors and occupation, as well as natural and man-made cancer-causing substances in the air, food or water. The development of cancer is usually a lengthy process. For

many types of cancer, symptoms do not occur until 10 to 30 years after exposure to cancer-causing agents. An agent that promotes the uncontrolled growth of cancer cells may cause cancer symptoms to be recognized in less time.

Cancer, unfortunately, is a common disease. One of every two men and one of every three women will develop cancer during his/her lifetime¹. The number of people with cancer is increasing in most communities because more people are living to the older ages, where cancer is more common.

Much more research is necessary before the causes of cancer are well understood. Current knowledge, however, suggests that the leading preventable cause of cancer is cigarette smoking. Dietary practices such as excessive alcohol consumption and the eating of high fat foods are also believed to be important. In fact, tobacco and diet may account for as many as two-thirds of all cancer deaths². Other avoidable risk factors include excessive exposure to sunlight, ionizing radiation, and various occupational exposures to cancer-causing agents.

It is important to realize that many cancers can be effectively treated if they are diagnosed at an early stage. Screening for cancers of the breast, cervix, colon and rectum, for example, helps to identify these diseases before the onset of symptoms and at a time when they are usually the most curable. Many persons could reduce their chances of developing or dying from cancer by adopting a healthier lifestyle and by visiting their physician for a cancer-related checkup.

¹ American Cancer Society. Cancer Facts and Figures - 2002. New York American Cancer Society, 2002.

² Doll R and Peto R. The Causes of Cancer. Oxford: Oxford University Press, 1981.

STATE OF NEW YORK,
COUNTY OF NASSAU,
TOWN OF OYSTER BAY

} ss.:

I, _____

John Canning

} Deputy Town Clerk of the Town of Oyster Bay, and

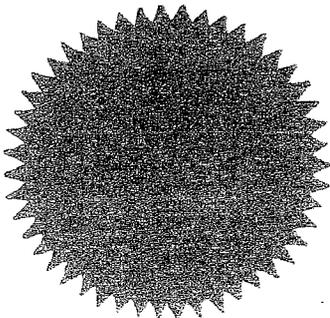
custodian of the Records of said Town, DO HEREBY CERTIFY that I have compared the annexed with the original paperwork for Section 11, Block 499 and Lots 96 through 100: Surveys by Teas and Barrett dated 2/7/74; 2/12/81 and 7/20/81, C.O. A4639 dated 6/17/83 with Permit I03510 dated 7/6/81, Permit R23733 dated 5/15/02 with application and associated paperwork and miscellaneous paperwork for Section 11, Block 499 and Lots 99 through 100.

filed in the ~~Town Clerk's Office~~ Dept. of Planning and Development, Div. of Building and that the same is true transcript thereof, and of the whole of such original.

In Testimony Whereof, I have hereunto signed

my name and affixed the seal of said Town

this 29th day of August, 2007.



John Canning
Deputy Town Clerk

AC/LWH/pt

CERTIFICATE OF OCCUPANCY

No. A-3117

TOWN OF OYSTER BAY
DEPARTMENT OF PLANNING & DEVELOPMENT
DIVISION OF BUILDING
TOWN HALL, AUDREY AVENUE
OYSTER BAY, N.Y. 11771

ISSUED TO OWNER:		DATE	July 22, 1982
NAME	Harbor Distributors	BUILDING PERMIT No.	703510
STREET ADDRESS	51 Alpha Plaza	APPLICATION No.	1018
POST OFFICE	Hicksville, New York	RECEIPT No.	C1081
FOR BUILDING LOCATED ON THE TAX		PERMIT DATE	7/6/81
MAP OF THE TOWN OF OYSTER BAY IN		APPEAL BOARD No.	
SECTION 11. BLOCK 499 LOTS <u>99</u>		Zone.	H

This CERTIFIES that the Building located at

East side of Cantiague Rd. 903.82' North of
West John St., Hicksville, New York

was constructed substantially in accordance with the plans filed for the above Building Permit and to all requirements of The Building Zone Ordinance and The Building Code of the Town of Oyster Bay and the occupancy is limited to the following use Class: Temp. certificate of occupancy for (60 days) for a storage purposes in (445' X 180') area.

re:
pa:
Sec:
Eas:

SHOULD THE OCCUPANCY CHANGE FROM THE ABOVE LIMITATION OF USE, APPLICATION MUST BE MADE FOR NEW CERTIFICATE.

PLUMBING APPROVAL No. _____
UNDERWRITERS CERTIFICATE
N.E.F.U. No. NE30757

DEPARTMENT OF PLANNING & DEVELOPMENT
DIVISION OF BUILDING

DEPARTMENT OF PLANNING & DEVELOPMENT
DIVISION OF BUILDING
TOWN OF OYSTER BAY—OYSTER BAY, N.Y. 11771

Application For

CERTIFICATE OF OCCUPANCY

Date 12-3-82

1759

IMPORTANT
TURN
OVER
AND READ
INSTRUCTIONS

823

To the Superintendent
Division of Building
Town Hall, Oyster Bay, N.Y. 11771

Sir:

The undersigned, as owner, or agent for owner, respectfully requests that final inspection be made and a Certificate of Occupancy be issued for the (new-altered) building located at

Section 11 Block 499 Lots 99

EAST side of CANTAGUE ROCK RD. Street at a point

900 feet NORTH of WEST JOHN STREET
(nearest intersection)

Building Permit No. 103510 Plumbing Permit No. 107113

Electrical Certificate No. 569357 (hereto attached)

Signed LICOW ASSOCIATES INC (P.V.M. Martin)

Address 203 DEER PARK AVE
DEER PARK, N.Y. 11729

No Certificate of Occupancy will be issued unless Application is complete.

See reverse side.

APP. # 00872

DATE 5/5/80 RECEIPT # C-1081 - 7-6-81
 TYPE OF PERMIT Warehouse
 PROPER & COMPLETE FORMS TELEPHONE #
 SURVEY BLDG. PLANS PLBG. CARD
 M.C. APPROVAL COMPENSATION EXCAVATION FORM
 NOTARIZED FEE 4438.00
 LETTERS SENT TO D.P.W. PARKS NASSAU CO 239K 93.00
 MAIL COUNTER OTHER INFORMATION
 CHECKED BY _____

LOCATION: SECTION 11 BLOCK 499 LOTS 26 ZONE H
 SCHOOL DISTRICT 17

REMARKS: _____
 CARD AND FOLDER FROM FILE _____

CHECKED BY John Dawson
 BOARD OF APPEALS EXPIRES _____ BOARD OF APPEALS _____

ZONING REVIEW: Provide 35 parking stalls 10' x 20' and 156 parking stalls 9' x 20'.

CHECKED BY Paul Hyland

PERMISSION GRANTED FOR THE CONSTRUCTION OF: One story Concrete Block Warehouse 445' x 80' with mezzanines 45.42' x 72' and 83' x 28.67' type 2b construction C-1 and C-4 occupancy. Steel 36 plumbing fixture per code. 11WC, 13 LAV, 4 UR, 48S, 30F, 1S. In total 15 leaching pools and 1 oil separator. Must comply with New York State Energy code. Supervision required

BLOCK _____ PRECAST NO. UNITS 16 SEPTIC TANK _____

PLUMBING NO. OF FIXTURES 36 VALUE OF CONSTRUCTION \$1,042,083.00

TOTAL NO. OF BURNERS _____ OIL _____ GAS _____

SEWER CONNECTION NEW _____ SPRINKLER _____ MAIN SIZE _____

OIL TANK INSIDE _____ GAUGE _____ CAP. GALS. _____

OIL TANK OUTSIDE _____ GAUGE _____ CAP. GALS. _____

H.W. HEATERS _____ OIL _____ GAS _____

CHECKED BY John H. Bassani

7-21-82
7-17-81
12-9-81

Construction	3157.00
Plumbing	77.00
Burner	
Tank	240.00
Sanitary	240.00
Plbg. C.A.	16.00
Const. C.O.	1047.00
TOTAL	4531.00

CONTRACT 1293 AND MODIFICATIONS

0	Letter Contract No. AT(30-1)-1293, dated December 10, 1951
0A	Contract AT(30-1)-1293, Appendix B, dated December 10, 1951
0B	Letter Contract No. AT(30-1)-1293, Modification No. 1, dated January 25, 1952
1	United States Atomic Energy Commission Press Release, dated January 28, 1952, "AEC Announces Contract With Sylvania For Expanded Research And Development On Nuclear Reactor Materials."
1A	Letter Contract No. AT(30-1)-1293, Modification No. 2, dated March 14, 1952
1B	Letter Contract No. AT(30-1)-1293, Modification No. 3, dated April 9, 1952
1C	Letter Contract No. AT(30-1)-1293, Modification No. 4, dated May 15, 1952
1D	Letter Contract No. AT(30-1)-1293, Modification No. 5, dated June 26, 1952
2	Draft Contract No. AT(30-1)-1293, dated July 11, 1952.
2A	Letter Contract No. AT(30-1)-1293, Modification No. 6, dated August 11, 1952
2B	Letter Contract No. AT(30-1)-1293, Modification No. 7, dated September 30, 1952
2C	Letter Contract No. AT(30-1)-1293, Modification No. 8, dated October 31, 1952
2D	Letter Contract No. AT(30-1)-1293, Modification No. 9, dated November 30, 1952
2E	Letter Contract No. AT(30-1)-1293, Modification No. 10, dated January 13, 1953
3	Memo from R. W. Cook to W. E. Kelley, dated January 29, 1953, regarding Approval Of Award Of Contract No. AT(30-1)-1293 With Sylvania Electric Products, Incorporated.
3A	Contract No. AT(30-1)-1293, executed March 10, 1953 (effective as of December 10, 1951)
3B	Contract No. AT(30-1)-1293, Amendment No. 5, dated July 1, 1953 [this appears to be a typographical error]
4	Contract No. AT(30-1)-1293, executed August 10, 1953 [this may be a typographical error] (effective as of December 10, 1951)
4A	Contract No. AT(30-1)-1293, Amendment No. 1, dated June 19, 1953

5	Letter from United States Atomic Energy Commission to W. E. Kingston, dated September 1, 1953, regarding Approval For Outside Work.
5A	Letter from United States Atomic Energy Commission to W. E. Kingston, dated September 1, 1953
5B	Contract No. AT(30-1)-1293, Amendment No. 2, dated September 29, 1953
5C	Contract No. AT(30-1)-1293, Amendment No. 3, dated October 29, 1953
5D	Contract No. AT(30-1)-1293, Amendment No. 4, dated November 25, 1953
5E	Memo from P. J. Hagelston to J. E. Gray, dated December 2, 1953, regarding Sylvania Flat Plate Program
5F	Contract No. AT(30-1)-1293, Amendment No. 1 to Appendix B, dated December 7, 1953
5G	Modification No. 6, Supplemental Agreement to Contract No. AT(30-1)-1293, dated March 17, 1954
5H	Modification No. 7, Supplemental Agreement to Contract No. AT(30-1)-1293, dated June 8, 1954
6	Ground Rules For Sylvania's Outside Work Done At Hicksville Under The 1293 Contract.
7	Letter from E. S. Norris to Curtis A. Nelson, dated June 17, 1954, regarding DCF 4986.
7A	Memo from J. C. Clarke to G. Edwards, dated June 24, 1954, regarding Mod. 7 to Contract AT(30-1)-1293 with Sylvania Electric Products, Inc.
8	AEC Contract Book, Summary of Contract AT(30-1)-1293, dated June 30, 1954.
8A	Modification No. 8, Supplemental Agreement to Contract No. AT(30-1)-1293, dated July 1, 1954
9	Letter from Curtis A. Nelson to E. S. Norris, dated July 6, 1954, regarding June 17, 1954 Correspondence.
10	Memo from John V. Vinciguerra to Files, dated July 6, 1954, regarding Meeting On Sylvania Proposals.
11	Letter from J. C. Clarke to E. S. Norris, dated July 7, 1954, regarding Transfer Of Contract No. AT(30-1)-1293 To Savannah River Operations Office.

12	Memo from N. J. Donahue to W. Davis and P. J. Hagelston, dated July 14, 1954, regarding Revised Estimate Of Cost Of Canning LMF Slugs At SRP.
13	Letter from Paul J. Hagelston to Winston Davis, dated August 10, 1954, regarding the Status Of Sylvania (Hicksville) Production Contract.
14	Background Summary On Sylvania-Contract AT(30-1)-1293, dated August 12, 1954.
15	Memo from P. J. Hagelston to Winston Davis, dated September 14, 1954, regarding the Status Of Sylvania Contracts--Hicksville And Bayside.
16	Memo from Paul J. Hagelston to Winston Davis, dated October 29, 1954, regarding Progress Report On Sylvania Contract AT(30-1)-1293-Hicksville.
16A	Modification No. 9, Supplemental Agreement to Contract No. AT(30-1)-1293, dated November 15, 1954
16B	Sylvania Electric Products, Inc. Contract No. AT(30-1)-1293 (As amended by Modifications 1 thru 8 and as proposed in Modification No. 9) (undated)
16C	Document entitled, "Sylvania Electric Products, Inc. Prime Contract AT(30-1)-1293" (undated)
17	Letter from R. C. Blair to Walter E. Kingston, dated December 17, 1954.
18	Letter from R. C. Blair to Walter E. Kingston, dated June 30, 1955.
18A	Modification No. 10, Supplemental Agreement to Contract No. AT(30-1)-1293, dated July 1, 1955
19	Letter from R. C. Blair to E. S. Norris, dated October 20, 1955, regarding Modification No. 10 To Contract AT (30-1)-1293.
20	Modification No. 12, Supplemental Agreement to Contract No. AT(30-1)-1293, dated November 1, 1955.
21	Memo to Files, dated November 21, 1955, regarding Meeting At NYOO Re Sylvania.
22	Memo to Files, dated November 23, 1955, regarding Meeting At Bayside Re Sylvania-Hicksville.
23	Savannah River Operations Office Contract Data Book, dated December 31, 1955.
24	Letter from E. S. Norris to R. C. Blair, dated January 20, 1956, regarding Modification No. 11 To Contract AT(30-1)-1293.

25	Memo from R. C. Blair, dated January 23, 1956, regarding Placing Work Under Contract No. AT(30-1)-1293 With Sylvania Electric Products, Inc. At The Hicksville Plant.
26	Active Contracts With The Sylvania Electric Products, Inc., (\$25,000 or more), dated as of July 31, 1956.
26A	Letter from E. S. Norris to R. C. Blair, Attention P. J. Hagelston, dated August 8, 1956, regarding Contract AT(30-1)-1293 Proposal For FY 1957.
26B	Memo from Paul J. Hagelston to James S. Hopkins, dated August 14, 1956, regarding Contract AT(30-1)-1293 Proposal For FY 1957.
26C	Letter from W. E. Kingston to R. C. Blair, dated September 5, 1956, regarding Contract AT(30-1)-1293-Proposal For Additional Work.
27	Memo from Paul J. Hagelston to James S. Hopkins, dated September 11, 1956, regarding Contract AT(30-1)-1293-Proposal For Additional Work.
28	Summary of Contract No. AT(30-1)-1293, Savannah River Operations Office, dated February 21, 1957.
29	Scope and Status of Work and Dollars Under Modification 14 and 15 Contract 1293, Sylvania, dated February 27, 1957.
30	Letter from Garth W. Edwards to R. C. Blair, dated March 26, 1957, regarding Supplemental Agreement to Contracts AT(30-1)-1293 And AT(30-1)GEN-366.
31	Modification No. 26, Supplemental Agreement to Contract No. AT-30-1-GEN-366 and Modification No. 16, Supplemental Agreement to Contract No. AT(30-1)-1293, dated April 1, 1957.
31A	Letter from Howard M. Cohen to James T. Ramey, dated May 15, 1957, regarding Contractual Examples In Support Of Dr. Davenport's Testimony On Present AEC Indemnity Policy.
31B	Memo from E. J. Bloch to Harold L. Price, Loren K. Olson, and Don S. Burrows, dated April 10, 1958, regarding Extension Of Statutory Indemnification To Sylvania-Corning Nuclear Corporation, attaching a Memo from R. C. Blair to R. E. Hollingsworth Through E. J. Bloch, dated April 4, 1958, regarding Sylvania-Corning Nuclear Corporation, Extension Of Statutory Indemnification.
31C	Memo from H. L. Price to E. J. Bloch, dated April 25, 1958, regarding Comments On Extension Of Statutory Indemnification To Sylvania-Corning.
32	Indemnity clause, dated June 26, 1958.

33	Letter from Winston Davis to Walter E. Kingston, dated August 17, 1958.
34	Letter from B. J. Bloch, dated May 19, 1959, regarding Proposed Elimination Of AEC Option To Purchase The Hicksville Plant In Contract AT(30-1)-1293 With Sylvania-Corning Nuclear Corporation (Sylcor).
35	Sponsored Task No. CH-4, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated July 1, 1959.
36	Memo from L. D. MacKay to James J. Wise, dated July 23, 1959, regarding Sylvania-Corning Nuclear Contract AT(30-1)-1293 Appendix "C" Agreement.
37	Memo from L. D. MacKay to C. L. Karl, dated August 17, 1959, regarding Sylvania-Corning Nuclear Contract AT(30-1)-1293 Appendix "C" Agreement.
38	Sponsored Task No. CH-4, Modification No. 1, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated September 11, 1959.
39	Sponsored Task No. CH-4, Modification No. 2, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated December 14, 1959.
40	Sponsored Task No. CH-4, Modification No. 3, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated March 15, 1960.
41	Letter from John W. Ruch to R. G. Humphries, dated March 30, 1960, regarding Sylcor Contract Extension.
42	Memo from R. G. Humphries to J. W. Ould, dated June 13, 1960, regarding Extension Of Oak Ridge Portion To Contract AT(30-1)-1293, Appendix C-Sylvania-Corning Nuclear Corporation.
43	Sponsored Task No. CH-4, Modification No. 4, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated June 30, 1960.
44	Sponsored Task No. CH-4, Modification No. 5, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated September 30, 1960.
45	Sponsored Task No. CH-4, Modification No. 6, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated February 6, 1961.
46	Sponsored Task No. CH-4, Modification No. 7, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated April 28, 1961.
47	Memo from N. J. Donahue to File, dated June 5, 1961, regarding Contract AT(30-1)-1293, Scope of Work--Mark V-B Program.

48	Sponsored Task No. CH-4, Modification No. 8, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated October 3, 1961.
49	Modification No. 29, Supplemental Agreement to Contract No. AT(30-1)-1293.
49A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised December 1, 1961, Under Modification No. 30
50	Memo from James S. Hopkins to R. C. Blair, dated January 10, 1962, referencing Modification No. 29.
50A	Modification No. 29, Supplemental Agreement to Contract AT(30-1)-1293, dated January 11, 1962 (authorized on January 10, 1962) (effective as of October 1, 1961)
51	Letter from R. C. Blair to D. B. Metz, dated January 12, 1962, referencing Modification No. 29 Appendix "B".
52	Sponsored Task No. CH-4, Modification No. 9, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated February 26, 1962.
53	Sponsored Task No. CH-4, Modification No. 10, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated March 28, 1962.
53A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised April 1, 1962, Under Modification No. 31
53B	Modification No. 30, Supplemental Agreement to Contract No. AT(30-1)-1293, dated April 5, 1962 (authorized on April 5, 1962) (effective as of December 1, 1962)
54	Unsigned Affidavit of D. Boyd Metz, dated May 1962.
54A	Modification No. 31, Supplemental Agreement to Contract No. AT(30-1)-1293, dated May 31, 1962 (authorized on May 10, 1962) (effective as of April 1, 1962)
55	Contract No. AT(30-1)1293, Appendix "A", dated August 13, 1962.
56	Review Of Sylcor Proposal DCF 2150-H For Period October 1, 1962 To September 30, 1963, dated September 13, 1962.
57	Sponsored Task No. CH-4, Modification No. 11, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated September 28, 1962.
57A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised October 1, 1962, Under Modification No. 32

58	Memo from A. Y. Morgan to J. S. Hopkins, dated October 21, 1962, regarding Review Of Sylcor Proposal For Period 10/1/62 - 9/30/63.
59	Memo from A. Y. Morgan to J. S. Hopkins, dated January 10, 1963, regarding Review Of Sylcor Proposal Of DCF 2223-H December 20, 1962.
60	[This section intentionally left blank]
61	Memo from John V. Vinciguerra, dated December 7, 1962, regarding Extension Of Contract AT(30-1)-1293 With Sylvania Electric Products, Inc.
62	Sponsored Task No. CH-4, Modification No. 12, Contract AT(30-1)-1293, Appendix "C", Work Under Paragraph 2 of Article I, dated December 19, 1962.
63	Revised pages 17 and 21 of Appendix "A", Contract AT(30-1)-1293, dated February 11, 1963.
63A	Modification No. 32, Supplemental Agreement to Contract AT(30-1)-1293, dated February 18, 1963 (effective as of October 1, 1962) (non-conformed copy)
63B	Modification No. 32, Supplemental Agreement to Contract AT(30-1)-1293, dated February 18, 1963 (effective as of October 1, 1962).
64	Letter from D. B. Metz to R. C. Blair, dated February 27, 1963, regarding DCF# 2260-H.
64A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised March 1, 1963, Under Modification No. 33
65	Memo from A. Y. Morgan to J. J. Wise, dated March 6, 1963, regarding Review Of Sylcor Proposal DCF 2260-H.
66	Letter from D. B. Metz to R. C. Blair, dated March 22, 1963, regarding DCF #2271-H.
67	Memo from A. Y. Morgan to J. S. Hopkins, dated April 12, 1963, regarding Review Of Sylcor Proposal DCF-2271-H.
67A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised May 1, 1963, Under Modification No. 34
68	Modification No. 33, Supplemental Agreement to Contract AT(30-1)-1293, dated May 17, 1963 (effective as of March 1, 1963).
68A	Modification No. 33, Supplemental Agreement to Contract AT(30-1)-1293, dated May 17, 1963 (authorized on May 2, 1963) (effective as of March 1, 1963)

69	Letter from W. R. Mandaro to R. C. Blair, dated May 29, 1963, regarding DCF# 2322-H.
70	Memo from A. Y. Morgan to J. S. Hopkins, dated June 14, 1963, regarding Review Of Sylcor's Proposal P-63-4 Dated May 28, 1963.
71	Modification No. 34, Supplemental Agreement to Contract AT(30-1)-1293, dated August 23, 1963 (effective as of May 1, 1963).
71A	Modification No. 34, Supplemental Agreement to Contract AT(30-1)-1293, dated August 23, 1963 (authorized on August 23, 1963) (effective as of May 1, 1963).
72	Letter from R. C. Blair to D. B. Metz, dated September 27, 1963, authorizing Sylvania to proceed with proposed work programs in accordance with the applicable terms and conditions of Contract AT(30-1)-1293, as amended.
72A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised October 1, 1963, Under Modification No. 35
73	Letter from Randall G. Erdley to Roland A. Anderson, dated October 2, 1963, regarding Extension Of Contract AT(30-1)-1293 With Sylvania Electric Products, Inc.
74	Memo from A. Y. Morgan to J. S. Hopkins, dated November 21, 1963, regarding Review Of Sylcor Proposal P-64-2.
75	Letter from Randall G. Erdley to D. S. Zachry, dated December 12, 1963, regarding Contract No. AT-(30-1)-1293-Sylvania Electric Products, Inc.
76	Memo from A. Y. Morgan to J. S. Hopkins, dated January 7, 1964, regarding Sylcor Proposal P-64-2.
76A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised February 1, 1964, Under Modification No. 36
77	Modification No. 35, Supplemental Agreement to Contract AT(30-1)-1293, dated February 28, 1964 (effective as of October 1, 1963).
77A	Modification No. 35, Supplemental Agreement to Contract AT(30-1)-1293, dated February 28, 1964 (authorized on January 21, 1964) (effective as of October 1, 1963)
78	Letter from Randall G. Erdley to Roland A. Anderson, dated March 10, 1964, regarding Extension Of Sylvania Electric Products, Inc.- Contract AT(30-1)-1293.
79	Memo from A. Y. Morgan to J. S. Hopkins, dated March 13, 1964, regarding Sylcor Proposal P-64-4.

80	Modification No. 36, Supplemental Agreement to Contract AT(30-1)-1293, dated April 20, 1964 (effective as of February 1, 1964).
80A	Modification No. 36, Supplemental Agreement to Contract AT(30-1)-1293, dated April 20, 1964 (authorized on April 2, 1964) (effective as of February 1, 1964)
81	Sylvania Electric Products Inc., Sylcor Division, Hicksville, New York, Proposal To AEC SROO, Use Of Government Owned facilities In Performance Of Private Commercial Work, dated April 20, 1964.
82	Letter from G. L. Moran to Dr. Glenn T. Seaborg, dated May 1, 1964, regarding Cost Reduction For Contract No. AT(30-1)-1293.
83	Letter from Randall G. Erdley to Roland A. Anderson, dated May 7, 1964, regarding Modification No. 36-Supplemental Agreement To Contract AT(30-1)-1293 With Sylvania Electric Products, Inc.
84	Memo from A. Y. Morgan to J. S. Hopkins, dated June 20, 1964, regarding Review Of Sylcor Proposal P-64-6.
84A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised June 30, 1964, Under Modification No. 37
84B	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised August 1, 1964, Under Modification No. 38
85	Modification No. 37, Supplemental Agreement to Contract AT(30-1)-1293, dated August 24, 1964 (effective as of April 1, 1964).
85A	Modification No. 37, Supplemental Agreement to Contract AT(30-1)-1293, dated August 24, 1964 (authorized on June 30, 1964) (effective as of April 1, 1964)
86	Memo from A. Y. Morgan to J. S. Hopkins, dated August 27, 1964, regarding Review Of Sylcor Proposal P-64-7.
87	Memo from A. Y. Morgan to J. S. Hopkins, dated September 24, 1964, regarding Review Sylcor Proposal P-65-1.
88	Letter from Randall G. Erdley to Roland A. Anderson, dated September 29, 1964, regarding Extension Of Contract AT(30-1)-1293 With Sylvania Electric Products, Inc.
88A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised October 1, 1964, Under Modification No. 39
89	Modification No. 38, Supplemental Agreement to Contract AT(30-1)-1293, dated October 14, 1964 (effective as of August 1, 1964).

89A	Modification No. 38, Supplemental Agreement to Contract AT(30-1)-1293, dated October 14, 1964 (effective as of August 1, 1964) (non-conformed copy)
90	Modification No. 39, Supplemental Agreement to Contract AT(30-1)-1293, dated November 24, 1964 (effective as of October 1, 1964).
90A	Modification No. 39, Supplemental Agreement to Contract AT(30-1)-1293, dated November 24, 1964 (effective as of October 1, 1964) (non-conformed copy)
91	Appendix "B" To Modification No. 29, Contract AT(30-1)-1293, Revised January 1, 1965, Under Modification No. 40.
91A	Agreement, effective as of January 1, 1965, regarding Use Of Government Owned Facilities In Performance Of Private Commercial Work.
92	Memo from A. Y. Morgan to J. S. Hopkins, dated January 20, 1965, regarding Review Sylcor Proposal P-65-2 (Revised).
93	Modification No. 40, Supplemental Agreement to Contract AT(30-1)-1293, dated February 26, 1965 (effective as of January 1, 1965).
94	Letter from R. E. Hollingsworth to John T. Conway, dated May 17, 1965, regarding Termination Of Contract.
94A	Undated Telex from F. P. Baranowski to R. C. Blair, regarding Commission Approval Of Termination of Contract 1293.
95	Letter from W. R. Mandaro, dated May 19, 1965, regarding The Closeout Of Contract 1293.
96	Letter from W. R. Mandaro to All Employees, dated May 19, 1965, regarding the closeout of Contract 1293.
96A	Contract AT(30-1)-1293, Appendix B to Modification No. 29, revised June 1, 1965, Under Modification No. 41
97	Letter from W. R. Mandaro to R. C. Blair, dated August 19, 1965, regarding Estimate Of Costs For Work Associated With The Termination Of Contract AT(30-1)-1293 For The Period Of August And September 1965.
98	W. G. Crowley handwritten notes, dated September 3, 1965, regarding the Closeout Of Contract 1293.
99	Telegram from R. C. Blair to W. R. Mandaro, dated September 17, 1965, regarding Amendment To Contract AT(30-1)-1293.

100	Memo from A. Y. Morgan to J. S. Hopkins, dated September 20, 1965, regarding Revised Sylcor Proposals P-65-3 and P-66-2.
101	Letter from W. R. Mandaro to R. C. Blair, dated September 23, 1965, regarding Proposal For Extension Of Contract Work Beyond September 30, 1965.
102	Handwritten draft letter from W. R. Mandaro to Blair regarding Proposal For Extension Of Contract 1293 Work Beyond September 30, 1965.
103	Contract 1293 Termination.
104	Contract AT(30-1)-1293 Contract Closeout Proposal-CPFF Basis And draft.
105	Handwritten notes regarding Contract 1293 Closeout.
106	Letter from R. C. Blair to W. R. Mandaro, dated October 1, 1965, regarding Expiration Of Contract AT(30-1)-1293.
107	Letter from R. C. Blair to W. R. Mandaro, dated November 12, 1965, regarding Proposed Modification No. 42 To Contract AT(30-1)-1293.
108	Draft Letter to J. Wise, dated November 22, 1965, regarding Contract AT(30-1)-1293-Termination.
109	Modification No. 41, Supplemental Agreement to Contract AT(30-1)-1293, dated November 29, 1965 (effective as of June 1, 1965).
110	Letter from R. A. McFeely, dated November 30, 1965, regarding Completion Of All Work Under Contract AT(30-1)-1293-Sylvania Electric Products Inc.
111	Letter from W. R. Mandaro to R. C. Blair, dated December 6, 1965, regarding Contract AT(30-1)-1293-Termination.
112	Letter from Milton Boll to R. C. Blair, dated December 6, 1965, regarding Modification #42, Contract AT(30-1)-1293.
113	Modification No. 42, Supplemental Agreement to Contract AT(30-1)-1293, dated December 15, 1965.
113A	Modification No. 42, Supplemental Agreement to Contract AT(30-1)-1293, dated December 15, 1965 (effective as of October 1, 1965) (non-conformed copy)
114	Letter from Randall G. Erdley to Roland A. Anderson, dated December 15, 1965, regarding Expiration Of Contract AT(30-1)-1293 - Sylvania Electric Products, Inc.
115	Letter from R. C. Blair to W. R. Mandaro, dated December 16, 1965, regarding Settlement Under Contract AT(30-1)-1293.

116	Letter from W. G. Crowley to A. Y. Morgan, dated December 16, 1965, regarding Closeout Of Financial Affairs Under Contract 1293.
117	Modification No. 43, Supplemental Agreement to Contract AT(30-1)-1293, dated January 14, 1966.
117A	Modification No. 43, Supplemental Agreement to Contract AT(30-1)-1293, dated January 14, 1966 (authorized on October 26, 1964) (effective as of December 16, 1965) (non-conformed copy)
118	Telegram, dated June 29, 1966, referencing the Final Release And General Assignment Of Contract AT(30-1)-1293.
119	Final Release, Contract No. AT(30-1)-1293, dated June 29, 1966.
120	General Assignment Between Sylvania Electric Products Inc. and the United States Atomic Energy Commission, dated June 29, 1966.
121	Letter from G. H. Giboney to L. Joe Deal, dated May 2, 1973, regarding Radiological Cleanup And Site Disposal Actions, with attachments
122	Monthly Report on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1)-1293, dated February 4, 1963.
123	Monthly Report on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1)-1293, dated March 6, 1963.
124	Monthly Report on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1)-1293, dated April 2, 1963.
125	Monthly Report on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1)-1293, dated May 2, 1963.
126	Monthly Report on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1)-1293, dated June 5, 1963.
127	Monthly Report on Nuclear Metals Inc. and Sylcor Divixion, Sylvania Electric Products Inc. - Contract AT(30-1)-1293, dated July 8, 1963.
128	Monthly Report on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1)-1293, dated August 8, 1963.
129	Monthly Report on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1)-1293, dated September 5, 1963.
130	Monthly Reports on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1) - 1293, dated October 4, 1963.

131	Monthly Reports on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1) - 1293, dated November 4, 1963.
132	Monthly Reports on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1) - 1293, dated December 6, 1963.
133	Monthly Reports on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1) - 1293, dated January 8, 1964.
134	Monthly Reports on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1) - 1293, dated February 4, 1964.
135	Monthly Reports on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1) - 1293, dated March 4, 1964.
136	Monthly Reports on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1) - 1293, dated April 3, 1964.
137	Monthly Reports on Nuclear Metals Inc. and Sylcor Division, Sylvania Electric Products Inc. - Contract AT(30-1) - 1293, dated May 1, 1964.

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This document consists of 6 pages
No. 1 of 12 copies, Series A

UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office
P.O. Box 30, Ansonia Station
New York 23, New York

SR 816

GC:GHS:sw
AT(30-1)-1293

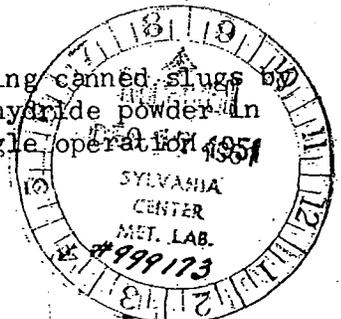
LETTER CONTRACT NO. AT(30-1)-1293
Dated: December 10, 1951

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York
Attention: Dr. W. E. Kingston
Gentlemen:

WSRC DECLASSIFICATION REVIEW	
1st Review Date: <u>4/28/04</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>R. H. Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/04</u>	
Authority: <u>ADD</u>	<input checked="" type="radio"/> 3. Classification Cancelled
Name: <u>LMR</u>	4. Other: <u>CG-NMP-2 9/00</u>

1. This letter, subject to your written acceptance, sets forth the initial agreement between THE UNITED STATES OF AMERICA (hereinafter referred to as the "Government") acting through the Atomic Energy Commission (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS, INC. (hereinafter referred to as the "Contractor") in anticipation of a definitive contract under which the Contractor (i) shall conduct studies, experimental investigations, and other research and development work, with respect to the establishment and operation of a pilot plant for the evaluation of the following:

- a. The production feasibility of preparing uncanned hot-pressed uranium slugs;
- b. The production feasibility of canning beta-treated conventional uranium slugs and powder metallurgy uranium slugs by elevated temperature, pressure-canning techniques;
- c. The production feasibility of preparing canned slugs by hot pressing uranium and/or uranium hydride powder in aluminum and zirconium cans in a single operation.



SROO Response to
FOIA (SR) - 04-028

Encl 14

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and (ii) shall establish and operate such a pilot plant. It is contemplated that the foregoing work will demonstrate the feasibility or non-feasibility of large scale production by, among other things:

- aa. Determining the practicability of production equipment;
- bb. Providing sufficient samples for statistical quality analysis;
- cc. Determining the health and safety requirements;
- dd. Providing adequate cost data for complete process analyses.

2. Pending the execution of said definitive contract and to the extent requested by the Commission from time to time, the Contractor shall enter upon, and continue, performance of said work.

3. All applicable articles and provisions required by law, regulation or Executive Order to be included in Government contracts for the type of work described in paragraph 1 above are incorporated herein by reference.

4. Negotiations have been undertaken, and will be continued, for the execution of said definitive contract which will supersede this letter contract. It will include all provisions and articles mentioned in paragraph 3 hereof and such other detailed terms and conditions as the parties agree upon which may or may not be at variance with the provisions of this letter contract.

5. Pending the execution of said definitive contract, (i) the Contractor's expenditures, purchase orders, subcontracts or other commitments in its performance hereunder shall not exceed Eight Hundred Thousand Dollars (\$800,000.00) in the aggregate, and (ii) payments on account, not in the aggregate exceeding said limiting amount, will be made by the Government as the work progresses in accordance with estimates (prepared by the Contractor and approved by the Commission) of the cost to the Contractor of work performed.

6.(a) In case said definitive contract is not executed by January 31, 1952, (or any subsequent date mutually agreed upon) this letter contract will terminate on the stated date or such subsequent date, as the case may be.

(b) The Commission may by written notice at any time terminate this letter contract.

(c) In the event of termination pursuant to either sub-paragraph (a) or (b) of this paragraph, the Government will pay the Contractor an amount equal to the sum of its actual expenditures in the performance of this letter contract (less payments previously made) plus an amount equal to the sum paid or to be paid in settling, with the approval of the Commission, its obligations for commitments made in such performance, but in no event more than the limiting amount set forth in subdivision (1) of paragraph 5 hereof. The Government may, in its discretion, assume any such obligations.

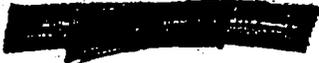
7.(a) All property furnished by the Government to the Contractor for use in performance of this letter contract shall remain the property of the Government.

(b) Title to all property specially procured by the Contractor in performance of this letter contract and the entire acquisition cost of which is directly recoverable hereunder shall pass directly from the vendors or other suppliers to the Government and shall remain the property of the Government. Title to all other property furnished by the Contractor in performance of this letter contract and the entire acquisition cost of which is directly recoverable hereunder shall pass to the Government at the respective times of such furnishing and shall remain the property of the Government.

(c) All technical data (including, without being restricted to drawings, designs, specifications, memoranda and notes), of whatsoever kind or nature furnished or prepared by the Contractor pursuant to or developed in connection with its performance under this letter contract, shall be (as and when prepared) and remain the property of the Government.

(d) All items of property referred to in sub-paragraphs (a) and (b) of this paragraph, including products, by-products, work-in-process, residues, salvage, wastage and scrap resulting therefrom, and all data referred to in sub-paragraph (c) of this paragraph, are hereinafter referred to as "Government property".

(e) The Contractor shall promptly notify the Commission of any loss or destruction of or damage to Government property, but not of any consumption of materials and supplies in its performance under this letter contract, nor of any lost, destroyed or damaged technical data which are worthless from three standpoints, to wit: monetary, practical, and security. The Contractor shall not be liable to the Government for any damage to, or loss or destruction of, Government property, provided such damage, loss, or destruction is not due to any act or failure to act, on the part of a then corporate officer of the Contractor, which is tantamount to wilful misconduct or gross negligence.



9.(a) Whenever any invention or discovery is made or conceived by the Contractor or its employees in the course of any of the work under this letter contract, the Contractor shall furnish the Commission with complete information thereon; and the Commission shall have the sole power to determine whether or not and where a patent application shall be filed, and to determine the disposition of the title to and the rights under any application or patent that may result; provided, however, that the Contractor, in any event, shall retain at least a non-exclusive, irrevocable, royalty-free license under said invention, discovery, application, or patent, such license being limited to the manufacture, use, and sale for purposes other than use in the production or utilization of fissionable material or atomic energy. Subject to the license retained by the Contractor, as provided in this paragraph, the judgment of the Commission on these matters shall be accepted as final; and the Contractor for itself and for its employees, agrees that the inventor or inventors will execute all documents and do all things necessary or proper to carry out the judgment of the Commission.

(b) No claim for pecuniary award or compensation under the provisions of the Atomic Energy Act of 1946 shall be asserted by the Contractor or its employees with respect to any invention or discovery made or conceived in the course of any of the work under this letter contract.

(c) Except as otherwise authorized in writing by the Commission, the Contractor will obtain patent agreements to effectuate the purposes of sub-paragraphs (a) and (b) of this paragraph 8 from all persons who perform any part of the work under this letter contract, except such clerical and manual labor personnel as will not have access to technical data.

(d) Except as otherwise authorized in writing by the Commission, the Contractor will insert in all subcontracts provisions making this paragraph 8 applicable to the subcontractor and its employees.

9.(a) It is understood that unauthorized disclosure of any, or failure to safeguard all, top secret, secret, confidential and restricted matter specifically indorsed as "Security Information" that may come to the Contractor or any person under its control in connection with the work under this letter contract, may subject the Contractor, its agents, employees and subcontractors to criminal liability under the laws of the United States. See the Atomic Energy Act of 1946 (Public Law 585 - 79th Congress). See also Title 18, United States Code, Secs. 5 and 11, Secs. 791 to 797, both inclusive, Secs. 2381 to 2390, both inclusive, and Sec. 3241; and Title 50, United States Code, Secs. 40 and 42.

[REDACTED]

(b) The Contractor agrees to conform to all security regulations and requirements of the Commission. Except as the Commission may authorize, in accordance with the provisions of the Atomic Energy Act of 1946, the Contractor agrees not to permit any individual to have access to restricted data until the Federal Bureau of Investigation shall have made an investigation and report to the Commission on the character, associations and loyalty of such individual and the Commission shall have determined that permitting such person to have access to restricted data will not endanger the common defense or security. The term "restricted data" as used in this sub-paragraph means all data concerning the manufacture or utilization of atomic weapons, the production of fissionable material, or the use of fissionable material in the production of power, but shall not include any data which the Commission from time to time determines may be published without adversely affecting the common defense and security.

(c) The Contractor shall insert in all subcontracts under this letter contract, and in other agreements entered into by the Contractor if the scope thereof involves classified data, provisions similar to the text of subparagraphs (a) and (b) above.

10.(a) The Commission shall have the right to inspect in such manner and at such times as it deems appropriate all activities of the Contractor arising in the course of the work under this letter contract.

(b) The Contractor shall make such reports to the Commission, with respect to the Contractor's activities under this letter contract, as the Commission may require from time to time.

11. The Contractor agrees to conform to all health and safety regulations and requirements of the Commission. The Contractor shall take all reasonable steps and precautions to protect health and minimize danger from all hazards to life and property, and shall make all reports and permit all inspections as provided in such regulations or requirements.

12. The Contractor shall not subcontract any part of the work it is obligated to perform under this letter contract, except as authorized in writing by the Commission. All subcontracts hereunder shall be subject to, and submitted for, Commission approval. The Government reserves the right from time to time by written notice from the Commission to the Contractor to make any or all commitments or classes of commitments hereunder other than subcontracts subject to, and to require their submission for, Commission approval.

[REDACTED]

13. Except as otherwise specifically provided in this letter contract, all disputes which may arise under or in connection with this letter contract, and which are not disposed of by mutual agreement, shall be decided by a representative of the Commission duly authorized to administer performance of the undertakings hereunder, who shall reduce his decision to writing and mail a copy thereof to the Contractor. Said decision shall be final and conclusive on the parties hereto, subject to the right of the Contractor to appeal as provided for in the sentence next following. Within 30 days from this mailing, the Contractor may appeal in writing to the Commission, whose written decision thereon, or that of its representative, representatives or board duly authorized to determine such appeal or such an appeal, not including the representative mentioned in the first sentence of this paragraph, shall be final and conclusive on the parties hereto. Pending and subsequent to the decision on any dispute under or in connection with this letter contract which may arise prior to completion of the Contractor's performance hereunder, the Contractor shall diligently proceed with the performance of its undertakings under this letter contract. Expenses incurred by the Contractor in connection with the submittal of disputes for initial decision and/or for appellate decision under this paragraph shall not be recoverable under this letter contract. In connection with any appeal procedure under this paragraph, the Contractor shall be afforded an opportunity to be heard and to offer evidence in support of its appeal.

14. The terms "Atomic Energy Commission" and "Commission" as used herein mean the United States Atomic Energy Commission or its duly authorized representative or representatives.

15. This letter, executed in triplicate on behalf of the Government, is forwarded to you for your consideration. If satisfactory, it is requested that the following acceptance form on copies 1 and 2 hereof be executed on behalf of your company and that such copies be returned to this office as promptly as possible. Copy 3 is for your retention.

Very truly yours,

THE UNITED STATES OF AMERICA

BY: U. S. ATOMIC ENERGY COMMISSION

By: W. E. Kelley

Accepted as of the 10th day
of December, 1951.

SYLVANIA ELECTRIC PRODUCTS, INC.

By: C. Shirley Carter

Its: vice President

(Title)

A

Appendix 'B'

SR 818

Contract AT(30-1)-1293

Dated: December 10, 1951

Scope of Work:

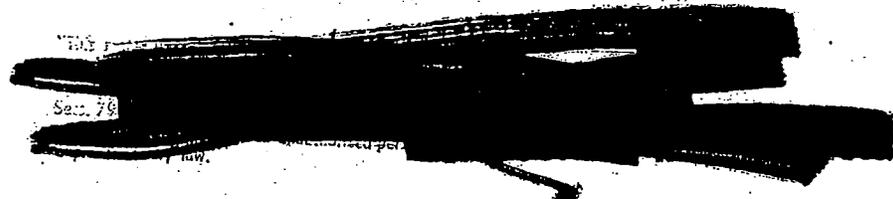
- ✓ A. Design and construct a pilot plant capable of producing 100-200 slugs per 8 hour day and evaluate results metallurgically and production-wise. By February 1, 1953 the above should be accomplished for uncanned uranium slugs pressed from uranium hydride. By April 1, 1953 the above should be accomplished for slugs pressed from uranium powder.
- ✓ B. Design, construct and demonstrate the feasibility of a pilot line for pressure canning slugs. This applies to metal powder slugs as well as beta heat treated and machined slugs and should be accomplished by April 1, 1953.
- ✓ C. Design, construct and demonstrate the feasibility of a pilot line for 8" slugs with test quantities only and evaluate results. The above should be accomplished by June 30, 1953.
- D. Begin the mechanization of the pilot plant using technical advancements and simplifications gained in the performance of A and B above. This should be done concurrently with the progress on A, B and C.
- E. Attempt to demonstrate the feasibility of a simultaneous pressing and canning technique for uranium slugs. This should be started by February 1, 1953.

Accepted as of 10 December 1951

Sylvania Electric Products, Inc.

By:

W.E. Ruyton



Sec. 79

WSRC DECLASSIFICATION REVIEW	
Determination (Circle Number)	1. Classification Unchanged 2. Classification Changed To: 3. Classification Cancelled 4. Other: <i>2</i>
1st Review Date: <i>4-2-87</i>	Authority: <input checked="" type="checkbox"/> ADC <input type="checkbox"/> ADD
Name: <i>St. Collins</i>	2nd Review Date: <i>4/2/87</i>
Priority: <i>ADD</i>	<i>9/10</i>

encl 1

B

This document consists of 1 pages.
No. 1 of 15 copies, Series A

UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office
P.O. Box 30, Ansonia Station
New York 23, New York

SI 805
1248

GC:MM:is
AT(30-1)-1293

LETTER CONTRACT NO. AT(30-1)-1293
Modification No. 1
Dated: January 25, 1952

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York
Attention: Dr. W. E. Kingston

WSRC DECLASSIFICATION REVIEW	
1st Review Date: <u>4/28/04</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>RL Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/04</u>	
Authority: <u>ADD</u>	<input checked="" type="checkbox"/> 3. Classification Cancelled
Name: <u>AWH2</u>	4. Other: <u>C6-NMP-2</u> <u>9/0</u>

Gentlemen:

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance the date "March 15, 1952" is substituted for the date "January 31, 1952" in paragraph 6(a) of said Letter Contract.

This letter, executed in triplicate on behalf of the United States, is forwarded to you for your consideration. If satisfactory, it is requested that the following acceptance form on copies 1 and 2 hereof be executed on behalf of your company and such copies returned to this office as promptly as possible. Copy 3 is for your retention. Such acceptance will constitute this letter an amendment of said Letter Contract to the extent set forth herein.

Very truly yours,

Accepted: February 7, 1952

THE UNITED STATES OF AMERICA

SYLVANIA ELECTRIC PRODUCTS, INC.

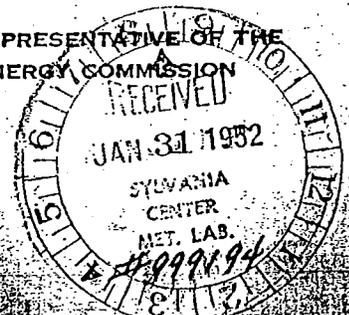
By: UNITED STATES ATOMIC ENERGY COMMISSION

By: W E Kingston

J. C. Clarke

Title: Director,
Atomic Energy Division

J. C. CLARKE
AUTHORIZED REPRESENTATIVE OF THE
U. S. ATOMIC ENERGY COMMISSION



UNITED STATES ATOMIC ENERGY COMMISSION
New York Operations Office
70 Columbus Avenue
New York 23, N. Y.

66427

INFORMATION FOR THE PRESS
No. 58, January 24, 1952
Tel. No. PLAZA 7-3600, Ext. 259

FOR RELEASE A.M.
Monday, January 28, 1952

AEC ANNOUNCES CONTRACT WITH SYLVANIA FOR EXPANDED
RESEARCH AND DEVELOPMENT ON NUCLEAR REACTOR MATERIALS

NEW YORK, January 27, --- The United States Atomic Energy Commission has contracted with Sylvania Electric Products Inc. for an expanded program of research and development in the field of nuclear reactor materials, it was announced jointly today by Wilbur E. Kelley, Manager of the AEC's New York Operations Office, and E. Finley Carter, Sylvania Vice President in charge of Engineering.

The AEC work will be carried out by Sylvania's Atomic Energy Division, a new unit of the Company established to facilitate the broadened program. Walter E. Kingston, formerly Manager of Sylvania's Metallurgical Laboratories at Bayside, N. Y., has been appointed Director of the Atomic Energy Division.

The new contract supplements the current AEC work at Sylvania's Metallurgical Laboratories which has been in progress since 1948. In general, the expanded program will cover research and development on the physical properties, metallurgy, and behavior of materials used in nuclear reactors.

"Because the Sylvania work is mostly of a classified (secret) nature, we cannot reveal any of its details at this time," Mr. Kelley said. "It does not, however, involve any toxic, radiological, or explosive hazards, and, like much of our work, it may have application in both the military and non-weapon fields."

"All research and development now being done by Sylvania for the AEC is being consolidated in the Atomic Energy Division," Mr. Carter said. "Headquarters of the new Division will be at Sylvania Center, our 56-acre research site at Bayside. We now are building a 50,000-square-foot laboratory there that will house the administration and staff of the new Division as soon as the building is completed late this Spring."

At the present time, Sylvania has approximately 200 persons attached to the Atomic Energy Division. When the AEC program is in full operation, it is expected there will be about 500 persons on the staff.

#

A

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ATOMIC ENERGY COMMISSION
New York Operations Office
P. O. Box 30 - Ansonia Station
New York 23, New York

SR 844

GC:IJL:krw
AT(30-1)-1293

LETTER CONTRACT No. AT(30-1)-1293
Modification No. 2

Dated: March 11, 1952
WSRC DECLASSIFICATION REVIEW

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York

ATTENTION: Dr. W. E. Kingston

Gentlemen:

1st Review Date: <u>4/28/52</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>W. Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/52</u>	
Authority: <u>ADD</u>	3. Classification Cancelled
Name: <u>W. Collins</u>	4. Other: <u>CG-AMP-2 9/10</u>

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance, the date "April 15, 1952" is substituted for the date "March 15, 1952" in paragraph 6(a) of said Letter Contract as previously modified by Modification No. 1 thereto.

This letter, executed in triplicate on behalf of the United States, is forwarded to you for your consideration. If satisfactory, it is requested that the following acceptance form on copies 1 and 2 hereto be executed on behalf of your company and such copies returned to this office as promptly as possible. Copy 3 is for your retention. Such acceptance will constitute this letter an amendment of said Letter Contract to the extent set forth herein.

Very truly yours,

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

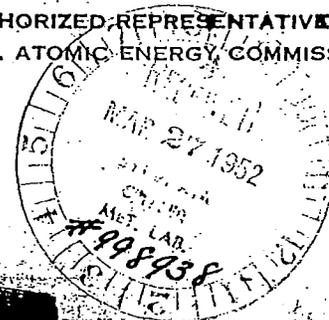
Accepted: April 1, , 1952

SYLVANIA ELECTRIC PRODUCTS, INC.

By: W. E. Kingston

Title: Director, Atomic Energy Division

J. C. CLARKE
AUTHORIZED REPRESENTATIVE OF THE
U. S. ATOMIC ENERGY COMMISSION



B

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UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office
P. O. Box 30 - Ansonia Station
New York 23, New York

SR 843

GC: IJL:krw
AT(30-1)-1293

LETTER CONTRACT No. AT(30-1)-1293
Modification No. 3
Dated: April 9, 1952

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York

ATTENTION: Dr. W. E. Kingston

Gentlemen:

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance, the date "May 15, 1952" is substituted for the date "April 15, 1952" in paragraph 6(a) of said Letter Contract as previously modified by Modifications Nos. 1 and 2 thereto.

This Letter, executed in triplicate on behalf of the United States, is forwarded to you for your consideration. If satisfactory, it is requested that the following acceptance form on copies 1 and 2 hereof be executed on behalf of your company and such copies returned to this office as promptly as possible. Copy 3 is for your retention. Such acceptance will constitute this Letter an amendment of said Letter Contract to the extent set forth herein.

Very truly yours,

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

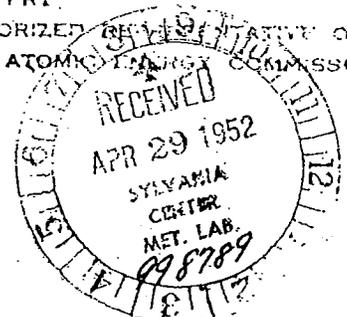
Accepted: 4/29/, 1952

SYLVANIA ELECTRIC PRODUCTS, INC.

By: W E Kingston

Title: Director,
Atomic Energy Division

H. B. FRY
AUTHORIZED REPRESENTATIVE OF THE
U. S. ATOMIC ENERGY COMMISSION



SROO Response to
FOIA (SR) - 04-028

C

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UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office
P. O. Box 30 - Ansonia Station
New York 23, New York

SR 842

GC:IJL:cc
AT(30-1)-1293

LETTER CONTRACT NO. AT(30-1)-1293
Modification No. 4
Dated: May 15, 1952

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York
ATTENTION: Dr. W. E. Kingston
Gentlemen:

WSRC DECLASSIFICATION REVIEW	
1st Review Date: 4/28/52	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: R. Collins	2. Classification Changed To:
2nd Review Date: 4/28/52	3. Classification Cancelled
Authority: ADD	4. Other: C6-11119-2 9A
Name: W. Fry	

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance, the date "June 30, 1952" is substituted for the date "May 15, 1952" in paragraph 6(a) of said Letter Contract as previously modified by Modification Nos. 1, 2 and 3 thereto.

This Letter, executed in triplicate on behalf of the United States, is forwarded to you for your consideration. If satisfactory, it is requested that the following acceptance form on copies 1 and 2 hereof be executed on behalf of your company and such copies returned to this office as promptly as possible. Copy 3 is for your retention. Such acceptance will constitute this Letter an amendment of said Letter Contract to the extent set forth herein.

Very truly yours,

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

Accepted: June 24, 1952
SYLVANIA ELECTRIC PRODUCTS, INC.
By: W. B. Barium
Title: Treasurer

H. B. FRY
AUTHORIZED REPRESENTATIVE OF THE
U. S. ATOMIC ENERGY COMMISSION



SROO Response to
FOIA (SR) - 04-028

D

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UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office
P. O. Box 30, Ansonia Station
New York 23, New York

SR 841

GC:IJL:sh
AT(30-1)-1293

LETTER CONTRACT No. AT(30-1)-1293
Modification No. 5
Dated: June 26, 1952

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York
ATTENTION: Dr. W. E. Kingston

1st Review Date: <u>4/28/04</u>		Determination (Circle Number) 1. Classification Unchanged 2. Classification Changed To: 3. Classification Cancelled 4. Other: <u>CG-NAL-2</u>
Authority: <input checked="" type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	Name: <u>RL Collins</u>	
2nd Review Date: <u>4/28/04</u>		
Authority: <input checked="" type="checkbox"/> ADD	Name: <u>W. E. Kelley</u>	

Gentlemen:

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance, the date "August 31, 1952" is substituted for the date "June 30, 1952" in paragraph 6(a) of said Letter Contract and the amount "Two Million Dollars (\$2,000,000.00)" is substituted for the amount "Eight Hundred Thousand Dollars (\$800,000.00)" in paragraph 5 of said Letter Contract, as previously modified by Modifications Nos. 1, 2, 3, and 4 thereto.

This Letter, executed in triplicate on behalf of the United States, is forwarded to you for your consideration. If satisfactory, it is requested that the following acceptance form on copies 1 and 2 hereof be executed on behalf of your company and such copies returned to this office as promptly as possible. Copy 3 is for your retention. Such acceptance will constitute this Letter an amendment of said Letter Contract to the extent set forth herein.

Very truly yours,

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

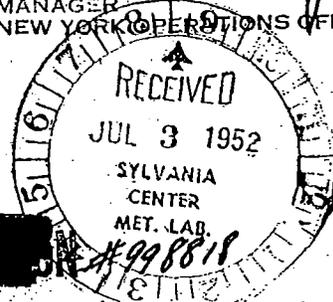
Accepted: 6/30, 1952

SYLVANIA ELECTRIC PRODUCTS, INC.

By: W. E. Kelley

Title: Vice President

W. E. KELLEY
MANAGER
NEW YORK OPERATIONS OFFICE



SROO Response to
FOIA (SR) - 04-028

Encl 1

CONTRACT NO. AT(30-1)-1293

THIS CONTRACT, entered into as of the 10th day of December, 1951, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government"); acting through the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"), a corporation organized and existing under the laws of the Commonwealth of Massachusetts, with its principal place of business in Bayside, Long Island, New York;

WITNESSETH THAT:

WHEREAS, by Letter Contract No. AT(30-1)-1293, dated December 10, 1951, the Government and the Contractor agreed, among other things, that the Contractor would perform for the Government the research and development work provided for in said Letter Contract; and

WHEREAS, the Government and the Contractor, as contemplated by said Letter Contract, have negotiated and arrived at the within definitive agreement, which supersedes said Letter Contract and in which said Letter Contract has been merged; and

WHEREAS, this contract is authorized by law, including the Atomic Energy Act of 1946;

NOW, THEREFORE, the parties hereto mutually agree as follows:

ARTICLE I - SCOPE OF THE WORK

1. The Contractor shall conduct studies, experimental investigations and other research and development work for the Government, the details of which research and development work are set forth in the classified Appendix "C" to this contract, which Appendix is incorporated herein by reference and made a part hereof.

2. The Contractor shall furnish all materials, equipment, facilities and premises, and all other properties and services requisite to the proper performance of the work under this contract, except to the extent that the Government elects to furnish such properties or services to the Contractor for use in the performance of said work.

ARTICLE II - SITE OF THE WORK

1. Principal Site

The principal site for the performance of this contract shall be the land and plant of the Contractor on Cantiague Road in Hicksville,

O F F I C I A L U S E O N L Y

Long Island, unless the Commission approves a substitute site in writing and until the date approved by the Commission for such substitution.

2. Alteration at Site

The Contractor shall alter the plant and other facilities at any principal site of the work, referred to in paragraph 1 above, to the extent the Commission considers such alterations necessary to the proper performance of the work hereunder.

3. Transfer of Site

The Contractor shall not sell, lease, license or otherwise transfer ownership or occupancy of any plant space or other facilities at any principal site of the work referred to in paragraph 1 above, or of said site or any portion thereof, without the approval of the Commission.

4. Non-Contract Activities

The Contractor shall not engage in or permit others to engage in activities other than activities in performance of the work of this contract at any principal site of the work referred to in paragraph 1 above, without the approval of the Commission.

5. Request for Approval

Any request of the Contractor to the Commission for approval pursuant to either of paragraphs 3 or 4 above, shall specify the extent of such transfer or non-contract activities and should further specify the Contractor's proposed reduction in the allowance for use and occupancy set forth in paragraph 3 of Article IV, CONSIDERATION, and estimate of reduction in other costs of this contract to the Government that would result should the Commission grant the requested approval. Any reduction in the allowance for use and occupancy agreed upon shall be embodied in an amendment to this contract.

ARTICLE III - TERM, EXPIRATION AND TERMINATION

1. The period of performance of the work under this contract shall commence on December 10, 1951 and, subject to the provisions of this Article, shall end on January 31, 1953.

2. Termination

a. For Default.

The Government may at any time terminate performance of the work under this contract for the default of the Contractor.

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b. For the Convenience of the Government.

The Government, at its election, regardless of whether or not there has been any breach with respect to this contract by the Contractor, may for its convenience, (i) from time to time terminate in part performance of work under this contract, or (ii) at any time terminate in whole the performance of the work under this contract.

c. Notice of Termination.

Termination, under this paragraph, shall be effected by delivery to the Contractor of a written notice of termination, which notice (i) shall specify the date upon which said termination shall become effective, (ii) in the event of a termination in part, shall specify the portion or portions of the work so terminated and the period or periods during which said termination shall be effective, and (iii) shall specify whether said termination is for the default of the Contractor or for the convenience of the Government. Upon receipt of a notice of termination, the Contractor shall promptly, except as the notice may direct otherwise, (i) discontinue all terminated work, (ii) cease all placing of orders for property or services in connection with the performance of the terminated work; (iii) proceed to the best of its ability to terminate all orders and subcontracts to the extent that they relate to the terminated work; (iv) assign to the Government in the manner and to the extent directed by the Commission, all the right, title and interest of the Contractor under the terminated portion of the orders and subcontracts so terminated; (v) settle, with the approval of the Commission, all subcontracts, obligations, commitments and claims related to the terminated work, the cost of which would be allowable in accordance with the provisions of this contract; (vi) continue performance of such part of the contract work, if any, as shall not have been terminated; and (vii) take such other action with respect to the terminated work as may be required under other Articles of this contract and, subject to the approval of the Commission, as may be otherwise appropriate, including but not limited to, action for the protection and preservation of Government property.

d. Entry by Government after Default.

If performance of the work under this contract is terminated for the default of the Contractor, the Government,

- (i) may exercise the option granted in paragraph 1 of Article VI, OPTIONS OF THE GOVERNMENT, to purchase the principal site of the work hereunder;

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(ii) may exercise the option granted in paragraph 2 of Article VI, OPTIONS OF THE GOVERNMENT, to lease the principal site of the work hereunder;

(iii) may (a) enter upon and have exclusive occupancy of the principal site of the work referred to in paragraph 1 of Article II, SITE OF THE WORK, (b) take possession, for the period of such occupancy, of all materials, tools, machinery and appliances therein which may be owned by or are in the possession of the Contractor, (c) exercise during said occupancy all options, privileges and rights belonging to or exercisable by the Contractor in connection with such premises and facilities, and (d) complete or employ others to complete, the work of this contract therein. Said occupancy shall be for a period not to exceed one year, during which year the Government may at any time, exercise either option referred to in items (i) and (ii) above. The Government, in the event of entry and occupancy pursuant to this item (iii), shall pay the Contractor a monthly charge in full satisfaction of all claims of the Contractor arising out of said entry and occupancy, including claims for the fair rental value of said premises and facilities. Said monthly charge will be one-twelfth the yearly allowance for use and occupancy set forth in paragraph of Article

e. Terms of Settlement. Upon the termination of performance of the work under this contract, full and complete settlement of all claims of the Contractor with respect to the work of this contract shall be made as follows:

(i) Assumption of Contractor's Obligations. The Government shall assume and become liable for all obligations, commitments, and claims that the Contractor may have theretofore in good faith undertaken or incurred in connection with the work of this contract, the cost of which would be allowable in accordance with the provisions of this contract; and the Contractor shall, as a condition of receiving the payments mentioned in this Article, execute and deliver all such papers and take all such steps as the Commission may require for the purpose of fully

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vesting in the Government all the rights and benefits of the Contractor under such obligations or commitments.

(ii) Payment for Allowable Costs. The Government shall reimburse the Contractor or allow credit for all allowable costs incurred in the performance of the terminated work and not previously reimbursed or otherwise discharged.

(iii) Payment for Close-Out Expense. The Government shall reimburse the Contractor (i) for such close-out expenses, (ii) for such further expenditures as are made after the date of termination for the protection of the Government property and (iii) for such legal and accounting services in connection with settlement, as are required or approved by the Commission.

(iv) Payment on Account of the Fixed Fees.

a. If the performance of the work under this contract is terminated for the default of the Contractor, no further payment on account of the fixed fees shall be made.

b. If the performance of the work under this contract is terminated in whole for the convenience of the Government, the Government shall pay to the Contractor the fixed fees provided for in paragraph of Article prorated up to and including the effective date of termination.

c. If the performance of work under this contract is terminated in part for the convenience of the Government, the Contractor and the Commission shall promptly negotiate to agree upon an equitable adjustment of the fixed fees hereunder and the agreement reached shall be evidenced by a supplemental agreement to this contract. If the Contractor and the Commission fail to so agree upon such fee adjustment, within a reasonable time after such partial termination, the failure to agree shall be disposed of in accordance with Article B-II, DISPUTES, hereof.

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3. Expiration. In the event of expiration of the period of work performance hereunder without prior termination hereof, the Contractor shall (i) discontinue the contract work at the end of the day of expiration and (ii) take such other action as may be required under other provisions of this contract and, subject to the approval or ratification of the Commission, as may be otherwise appropriate, including but not limited to, action for the protection and preservation of Government property.

4. Claims in Favor of the Government. The obligation of the Government to make any of the payments required by this Article shall be subject to any unsettled claims in connection with this contract which the Government may have against the Contractor. Nothing contained in this Article shall be construed to limit or affect any other remedies which the Government may have as a result of a default by the Contractor.

5. Settlement upon Termination or Expiration. Any other provisions of this contract to the contrary, the Contractor and the Commission may agree upon the whole or any part of the amount or amounts which the Contractor is to receive upon and in connection with (i) any termination pursuant to this Article or (ii) expiration of the term of this contract without prior termination thereof. Any agreement so reached shall be evidenced by a written supplemental agreement to this contract which shall be final and binding upon the parties with regard to their respective claims against each other except as therein otherwise expressly provided.

ARTICLE IV - CONSIDERATION

1. Compensation for Contractor's Services.

As full consideration for the performance by the Contractor of the work of this contract (including profit on all items and for all work, and reimbursement for all costs and expenses listed hereunder as unallowable costs or otherwise not allowable under the terms of this contract) the Contractor shall receive from the Government:

a. A fixed fee of \$ _____ for each month during the period of performance of the work of this contract set forth in paragraph 1 of Article III, TERM, TERMINATION AND EXPIRATION.

b. Payment for allowable costs as hereinafter provided.

2. Basis for Determination of Allowable Costs.

The costs allowable under this contract shall be costs and expenses which are actually incurred by the Contractor in performing the work under this contract and which are necessary or incident thereto. Allowable costs shall include, without limitation on the generality of the foregoing, the items described as allowable in paragraph 3 of this Article but shall not in any event include the items described as

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unallowable in paragraph 4 of this Article except to the extent indicated therein. Failure to mention any item of cost in this Article is not intended to imply that it is either allowable or unallowable.

3. Examples of Allowable Costs.

The following are examples of items, the cost of which is allowable under this contract to the extent indicated:

a. Bonds and insurance, including self-insurance, approved by the Commission, the cost of which is not excluded by other provisions of this contract.

b. Transportation (including reconsignment, switching, demurrage and diversion charges), loading, unloading, storage, crating, packing, local and long distance telephone charges, facsimile and teletype messages, telegrams, cablegrams, radiograms, postage, post office box rental, messenger charges and delivery services.

c. Materials, supplies, tools, machinery, equipment, fuel and utilities, including the cost of processing and testing thereof by others and inspection, expediting, storage, salvage and other usual expenses incident to the procurement and use thereof, subject to the approvals required under any other provisions of this contract.

(i) The Contractor may use in its performance of the work of this contract, items manufactured by it in the ordinary course of its commercial business, provided that the Commission grants approval to each such use and provided further that the Commission and the Contractor shall have agreed, in advance of any such use, in writing but not necessarily by execution of an amendment to this contract, upon a unit price or prices for such items. The unit price or prices so agreed upon may include profit.

(ii) The Contractor may withdraw from its general stores and use in its performance of the work of this contract items purchased by it before or during the period of performance of this contract, for its general stores, provided that such withdrawal and use of said items shall be in accordance with the Contractor's statements of its daily procurement practises and procedures submitted to the Commission and approved by the Commission pursuant to subparagraph b of paragraph 1 of Article IX, PROCUREMENT AND SUBCONTRACTS. The cost of any such item shall be determined in accordance with last-in, first-out inventory accounting principles.

(iii) The Government shall have the right to inspect any item provided by the Contractor for the work of this contract pursuant to subparagraphs (i) and (ii) above and to reject any or all of such items, in which event there shall be no cost

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to the Government on account of such rejected items and the Contractor shall at its own non-allowable cost and expense, remove all such rejected items from any site of the work to which they may have been delivered.

d. Patents, purchased designs and royalty payments, to the extent approved by the Commission.

e. Expert technical or professional assistance to the extent authorized under Appendix "A", as it may be modified from time to time, which appendix is attached hereto and made a part hereof.

f. Subcontracts approved by the Commission.

g. Taxes, fees and charges, levied by public authorities, which the Contractor is required by law to pay, except those which are imposed upon or arise by reason of or are measured by the Contractor's fee or which are excluded pursuant to other provisions of this contract.

h. In accordance with Appendix "A", or modifications thereto, labor (whether as wages, salaries, benefits, or other compensation, as prescribed by the Contractor's employment and employee welfare policies), recruiting of personnel (including "help wanted" advertising), travel (including subsistence during travel), and the transportation of personnel and their household goods and effects.

i. Expenses of litigation, including reasonable counsel fees, incurred in accordance with the provisions of this contract, and such other legal, accounting, and consulting fees as are approved by the Commission.

j. Alterations, remodeling, and reconstruction of the Contractor's plant at Hicksville, Long Island, but only to the extent approved in writing by the Commission.

k. An allowance of _____ per year, during the period, commencing March 1, 1952, of the Contractor's performance of the work of this contract in the Cantiague Road, Hicksville, Long Island plant of the Contractor, prorated over said period. Said allowance is in lieu of any charge by the Contractor for the use and occupancy of said plant and is in lieu of costs and expenses actually incurred by the Contractor during said period for the following:

(i) Depreciation of buildings on Hicksville site of the work hereunder.

(ii) Real estate taxes, including, among others, school, water, and sewage taxes and special assessments, on the land and buildings at said Hicksville site.

(iii) Premiums for fire, smoke, storm, and hail insurance, and similar property insurance policies on the Contractor's Hicksville Plant.

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l. An allowance (in lieu of direct reimbursement) to cover all general and administrative expenses and other allowable costs which the parties agree are to be indirectly charged and allocated to the work of this contract. The amount of this allowance shall be computed as a percentage (otherwise referred to herein as the indirect expense rate) of

(i) A provisional indirect expense rate of percent, subject to review and retroactive adjustment, is agreed upon at the commencement of this contract and the Government's payments to the Contractor shall be based initially upon said provisional rate. As soon after each June 30th during the term of this contract (and as soon after any intervening date of termination or expiration thereof) as is practicable, the Commission in consultation with the Contractor, shall review the actual expense to, and obligation incurred by, the Contractor during the contract period from the close of the previous period reviewed (or the date of commencement of the contract if there has been no previous period reviewed) to said June 30th (or intervening date of termination or expiration) attributable to the elements of costs covered by this allowance. Based upon such review, the Commission and the Contractor shall negotiate and agree upon a fixed rate for the period reviewed. Said fixed rate shall retrospectively replace the provisional rate hitherto in effect for the period reviewed. Said fixed rate, or any other rate which the Commission and the Contractor may agree upon at said negotiation, shall, as a new provisional rate, (i) retrospectively replace the provisional rate hitherto in effect from the close of the contract period reviewed to the date of agreement on said new rate, and (ii) prospectively be the new provisional rate until it is in turn replaced pursuant to the foregoing by a new provisional or fixed rate. In the event that a provisional rate is replaced by a lower or higher fixed or provisional rate suitable retrospective adjustments in the payments shall be made promptly. Failure to agree upon a fixed rate pursuant to the foregoing shall be considered a dispute to be settled in accordance with the provisions of Article DISPUTES, hereof.

m. Costs of providing cafeteria, restaurant, or food commissary services to employees of the Contractor directly engaged in the performance of the work hereunder.

n. Items of cost which are not expressly excluded by other provisions of this contract and which are specifically certified in writing by the Commission as allowable costs hereunder.

o. Expenses of moving and transporting the Contractor's facilities and Government equipment from any principal site of the work set forth in paragraph 1 of Article II, SITE OF THE WORK, to any other site in order to perform the work of this contract; provided, that the Commission orders or approves (in writing and in advance) such moving and transportation.

p. Close-out cost incurred by the contractor after the expiration or termination of the period of performance of the work of this contract.

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q. Losses and expenses not compensated for by insurance or otherwise (including settlements made with the consent of the Commission), sustained by the Contractor in the performance of the work and certified in writing by the Commission to be just and reasonable, except (i) losses and expenses expressly made unallowable under other provisions of this contract, and (ii) losses and expenses arising as a result of gross negligence or wilful misconduct attributable to the Contractor or its employees.

4. Example of Unallowable Costs: The following are examples of items, the cost of which is not allowable except as indicated:

a. Advertising, except "help-wanted" advertising or other advertising authorized by the Commission.

b. Central and branch office expenses of the Contractor, except expenses of the principal site of the work, as described in paragraph 1 of Article II, SITE OF THE WORK, and except as expressly provided for elsewhere in this contract.

c. Commissions and bonuses (under whatever name) in connection with obtaining or negotiating for a Government contract.

d. Unless otherwise authorized by the Commission, costs of the character described in subdivision (h) under examples of allowable costs, which are not in accordance with Appendix "A", or modifications thereto.

e. Provisions for contingent reserves.

f. Contributions and donations.

g. Dividend payments.

h. Entertainment expenses, except as provided in Appendix "A", or modifications thereto.

i. Fines and penalties, unless incurred as a result of action by the Contractor in accordance with the express direction of the Commission or in accordance with the provisions of Article , STATE AND LOCAL TAXES.

j. Interest on borrowings (however represented), bond discounts and expense, and financial charges.

k. Losses from sales and exchanges of the Contractor's capital assets and losses on other contracts.

l. Membership in trade, business and professional organizations, except as specifically authorized by the Commission.

m. Pensions, retirement, group health, accident and life insurance plans, except to the extent authorized under Appendix "A", or modifications thereto.

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n. Storage of contract records after completion of contract operations, irrespective of contractual or statutory requirements regarding preservation of records.

o. Taxes, fees and charges, levied by public agencies, which are imposed upon or arise by reason of or are measured by the Contractor's fixed fee.

p. Government-furnished property, except to the extent that cash payment therefor is required pursuant to procedures of the Commission applicable to transfers of such property to the Contractor from others (including other agencies of the Government).

q. Wages, salaries, or other compensation (except travel and subsistence during travel in pursuance of the work under this contract), of the Contractor's corporate officers.

r. The cost of insurance against loss, destruction or damage to Government-owned property.

s. Other items made unallowable by the provisions of this contract.

5. Payment:

a. Payment of Fixed Fees. Ninety percent of the fixed fee for each month set forth in subparagraph a. of paragraph 1 of this Article shall be paid each month and the balance shall become due and payable upon completion and acceptance of the work.

b. Payment for Allowable Costs. Reimbursement for allowable costs shall be made at intervals stipulated by the Contractor and the Commission and upon completion and acceptance of the work.

c. Final Payment. Upon completion of the work and its acceptance by the Government, and upon the furnishing by the Contractor of a release in such form and with such exceptions as may be approved by the Commission of all claims against the Government under or arising out of this contract, accompanied by the accounting for Government-owned property required by the Article entitled, GOVERNMENT PROPERTY, the Government shall promptly pay to the Contractor the unpaid balance of allowable costs and fixed fees less (i) deductions due under the terms of this contract, and (ii) any sum required to settle any unsettled claim which the Government may have against the Contractor.

d. Claims for Payment. Claims for payment shall be accompanied by such supporting documents and justifications as the Commission shall prescribe.

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e. Discounts. The Contractor shall take and afford the Government advantage of all available cash and trade discounts, rebates, allowances, credits, salvage, commissions and bonifications.

f. Revenues. Any revenues accruing to the Contractor in connection with the work under this contract shall be applied in reduction of allowable costs under this contract.

g. Direct Payment of Charges - Deductions. The Government reserves the right, upon ten (10) days written notice from the Commission to the Contractor, to pay directly to the persons concerned any charges for services, materials or freight which otherwise would be allowable under this contract. Any payment so made shall discharge the Government of all liability to the Contractor therefor.

6. Limit of Government Liability.

a. Estimates. The initially estimated cost of the work under this contract, including the fixed fees set forth in subparagraph a. of paragraph 1 of this Article, is It is understood that neither the Government nor the Contractor guarantees the correctness of the initial estimate of cost nor any revision thereof, and that there shall be no adjustment in the amount of the Contractor's fixed fees by reason of any errors in the computation of estimated costs or revised estimated costs, or any difference between any estimated cost or revisions thereof and the actual cost of the work.

b. Obligations. The Commission has initially obligated for this contract, from obligational authority available to it, the sum of Said amount may be increased by the Commission in its discretion, from time to time. The Contractor shall promptly notify the Commission in writing whenever it believes that the then Commission obligation for this contract is insufficient, and its notice shall contain its estimate of the amount of such insufficiency. When and if the total of amounts paid and payable to the Contractor under this contract (including the fixed fees and the actual or estimated amounts unpaid by the Contractor on all subcontracts and all other commitments on the assumption that they will be completed), shall equal the then Commission obligation for this contract, the Contractor shall not be expected to incur further expenses nor to perform further hereunder unless the Commission agrees in writing to increase said obligation for this contract in an amount sufficient to cover additional work hereunder. Notwithstanding any other provisions of this contract the liability of the Government under this contract shall be limited to the Commission obligation specified in this subparagraph, as same may be increased by the Commission by notice to the Contractor in writing.

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ARTICLE V - GOVERNMENT PROPERTY

1. Except as otherwise specifically agreed upon in writing by the Contractor and the Commission and except as otherwise specifically provided herein,

a. title to all property specially purchased by the Contractor for this contract, for which the Contractor is entitled to direct reimbursement under the provisions of paragraphs 2 and 3 of Article IV, CONSIDERATION, shall pass directly from the vendor to the Government; and

b. title to all property utilized in the work of this contract, provided by the Contractor from Contractor-owned stores or manufactured by the Contractor in the ordinary course of its commercial business, for which the Contractor is entitled to reimbursement under the provisions of paragraphs 2 and 3 of Article IV, CONSIDERATION, shall pass to the Government at the time of such utilization.

2. The Government reserves the right to furnish any property or services required for or useful in the performance of the work under this contract. Title to all property so furnished shall remain in the Government.

3. The Government shall retain title to all products, by-products, wastage, salvage, work-in-process, residues and scrap resulting from property to which the Government has or had title pursuant to paragraphs 1 and 2 above.

4. All items of Government-owned property referred to above are hereafter collectively referred to in this Article as "Government property". To the extent practicable, the Contractor shall cause all non-expendable items of Government property to be suitably marked with an identifying mark or symbol indicating that the items are the property of the Government. The Contractor shall maintain, at all times and in a manner satisfactory to the Commission, records showing the disposition and use of Government property. Such records shall be subject to Commission inspection at all reasonable times. It is understood that the Commission shall at all reasonable times have access to the premises wherein any items of Government property are located.

5. The Contractor shall promptly notify the Commission of any loss or destruction of or damage to Government property (but not of any consumption of materials or supplies in the performance of its undertakings hereunder,) Except as otherwise specifically provided in this contract, the Government shall not be liable for loss or destruction of or damage to Government property (in the possession or custody of the Contractor in connection with this contract) unless such loss, destruction or damage is due to gross negligence or wilful misconduct attributable to the Contractor or its employees.

6. Items of Government property referred to above shall not be used by the Contractor except in the performance of its obligations under this contract.

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7. In the event of loss or destruction of or damage to Government property, the Contractor shall take such steps, to subserve the Government's interest, as the Commission authorizes or approves. If the Contractor is liable for loss or destruction of or damage to any items of Government property, it shall promptly account therefor to the satisfaction of the Commission; if the Contractor is not liable therefor, and is indemnified, reimbursed, or otherwise compensated for such loss, destruction or damage (other than by the Government under this contract), the Contractor shall promptly account to the Government for an equitable share of such indemnification, reimbursement, or other compensation; in any event, the Contractor shall do nothing to prejudice the Government's rights to recover against third parties for any such loss, destruction or damage, and, upon request of the Commission, shall furnish the Government all reasonable assistance and cooperation (including the prosecution of suit and the execution of instruments of assignment in favor of the Government) in obtaining recovery.

8. The Contractor may, with the approval of the Commission, (i) transfer or otherwise dispose of items of Government property to such parties and upon such terms and conditions as so approved, or (ii) itself acquire title to items of property at prices mutually agreed upon by the Commission and the Contractor without the necessity of execution of an amendment to this contract. The proceeds of any such transfer or disposition, and the agreed price of any such Contractor acquisition, shall be applied in reduction of any payments or reimbursement to be made by the Government to the Contractor under this contract or shall otherwise be paid in such manner as the Commission may direct.

9. With respect to Government property located at the Contractor's Hicksville plant, not sold or otherwise disposed of by the Contractor or acquired by the Contractor pursuant to paragraph 8 above,

- a. within ninety (90) days following the termination or expiration of the period of performance of this contract or any extensions thereof, the Government, if it has not exercised the option to purchase said plant as provided in Article VI, OPTIONS IN THE GOVERNMENT, shall, with respect to each item of property, abandon such property or remove such property.
- b. In the event the Government exercises an option to lease said plant provided in Article VI hereof, the rights in the Government set forth in subdivision a. above shall be suspended during the term of such lease and any extensions thereof and, the ninety (90) day period during which the Government must either abandon or remove such property, shall not commence to run until the expiration or termination of said lease and any extensions thereof.

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- c. There shall be no charge to the Government by the Contractor in the nature of rent for the storage of such property (i) for any period during which the Government may exercise any option set forth in Article VI, hereof, (ii) for any period during which the Government may elect, in accordance with this paragraph, to abandon or remove such property, or (iii) during the period of the close-out of this contract.

ARTICLE VI - OPTIONS IN THE GOVERNMENT

As part of the consideration for this contract, the Government is hereby granted the two options set forth below. Either option may be exercised by the Government, which shall give the Contractor written notice of such exercise, at any time up to one hundred twenty (120) days after the expiration or termination of this contract and, in the event of occupancy by the Government pursuant to subparagraph d. of paragraph 2 of Article III, TERM, EXPIRATION AND TERMINATION, at any time during said occupancy.

1. The option to purchase the land and buildings owned by the Contractor at Hicksville, in the Township of Oyster Bay, New York, for the fair market value thereof, but in no event for more than the sum of the purchase price paid by the Contractor for said property (including closing costs and costs of necessary permits, variances and zoning changes to the extent that the Contractor is not reimbursed for such costs hereunder), and the actual cost of improvements to said buildings and land made by the Contractor for which the Contractor is not reimbursed hereunder, less the depreciation of such buildings and improvements. For the purposes of this paragraph, depreciation is defined as that depreciation allowed or allowable to the Contractor for tax purposes in accordance with Internal Revenue Code Section 23 (1) and applicable regulations plus such accelerated amortization as has been taken for tax purposes by the Contractor pursuant to Internal Revenue Code Section 124A.
2. The option to lease the land and buildings owned by the Contractor at Hicksville, in the Township of Oyster Bay, New York, for a period of one to five years. In the event that the Government leases the Contractor's plant pursuant to this paragraph for a period of less than five (5) years, such lease shall automatically be deemed to include, unless it is specifically agreed otherwise in writing by the Government, a renewal option in the Government at the same terms for the remainder of the five year period or any portion thereof. The rental charge under any lease taken by the Government pursuant to this paragraph shall not relieve the Contractor of the usual obligations of a lessor to pay such taxes and special assessments as are levied by public authorities on the leased property. Said rental charge shall be
per year.

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6. The Contractor, at its own non-reimbursable cost and expense, shall hold and save the Government, its officers, agents, servants and employees, harmless from liability of any nature or kind, including costs and expenses incurred, for the use of any invention or discovery and for the infringement of any Letters Patent (not including liability arising pursuant to the Act of October 6, 1917, 40 Stat. 394, as amended, Title 35 U.S.C. Sec. 42, prior to issuance of Letters Patent) occurring in the performance of the work under this contract or arising by reason of the use or disposal by or for the account of the Government of items procured, manufactured or supplied under this contract, EXCEPT as to any inventions or discoveries within the purview of paragraph 1 of this Article, and EXCEPT as to the infringement by the Contractor and the Government of any device, process or composition of matter (i) required by specific written instructions of the Commission which expressly refer to this paragraph, or (ii) as to which the Contractor has no freedom of choice between infringement and non-infringement.

ARTICLE VIII - RECORDS AND ACCOUNTS

1. The Contractor shall keep and maintain a separate and distinct set of records and books of account together with all related memoranda, supporting documents and correspondence, showing all allowable costs incurred, revenues earned, fixed fee accruals and the use and disposition of all Government-owned property coming into the possession of the Contractor under this contract. The Contractor shall accurately record its financial transactions hereunder in said records and books of account. The system of accounts employed by the Contractor shall be in accordance with generally accepted accounting principles and subject to the approval of the Commission.

2. Except to the extent, if any, otherwise approved by the Commission, all records, books of account, memoranda, supporting documents and correspondence referred to in paragraph 1 above

(i) shall be the property of the Government

(ii) shall be kept and maintained at the principal site of the work referred to in paragraph 1 of Article II, SITE OF THE WORK;

(iii) shall be subject to audit and inspection by the Commission at all reasonable times and the Contractor shall afford the Commission proper facilities for such inspection and audit; and

(iv) shall be delivered to the Government or otherwise disposed of by the Contractor either as the Commission may from time to time direct during the progress of the work or in any event as the Commission shall determine upon completion or termination of this contract and final audit of all accounts hereunder.

3. All records in the possession of the Contractor related to this contract, except those referred to in paragraph 1 above, and in Article , SCIENTIFIC AND TECHNICAL DATA, shall be preserved by the

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Contractor without additional compensation therefore, for a period of five (5) years after final settlement of the contract or otherwise disposed of in such manner as may be agreed upon by the Government and the Contractor. The Government shall at all reasonable times have the right to examine, make copies of, and borrow said records, at no cost to the Government; provided, however, that except as otherwise agreed upon by the Government and the Contractor all such records which bear a security classification at the time of completion or termination of the work set forth in Article I, SCOPE OF THE WORK, or at the time of the expiration of this contract, shall become the property of the Government at such time and shall thereafter be delivered to the Government or otherwise disposed of by the Contractor as the Commission shall determine and provided further that neither this paragraph nor any other provision of this contract shall be deemed to require the Contractor at its unallowable cost to store or preserve records which bear a security classification.

ARTICLE IX - PROCUREMENT AND SUBCONTRACTS

1. Approvals

- a. The Contractor shall not enter into any subcontract without the prior written approval of the Commission of its terms and conditions. For the purposes of this paragraph, a subcontract is defined as any contractual arrangement (whether or not in the form commonly referred to as a "purchase order") with a third party for the performance of a specific part of the work to be performed under this contract, which arrangement is specifically made for such performance and the cost of which is, apart from the provisions of this paragraph, an allowable cost under this contract, except, however, arrangements covering (i) the furnishing of a basic raw material, (ii) the furnishing of a standard commercial or catalog item, or (iii) the employer-employee relation.
- b. The Commission reserves the right, from time to time, by written notice from the Commission to the Contractor (i) to make any or all other commitments or classes of commitments hereunder (other than the contractual arrangements referred to in a. above) subject to, and to require their submission for, Commission approval, and (ii) to make any or all methods, practices, and procedures used or proposed to be used in effecting all arrangements and commitments hereunder subject to, and to require their submission for, Commission approval. In this regard, the Contractor agrees to prepare and submit to the Commission for review, within thirty (30) days after the execution of this contract (or any extension thereof approved in writing by the Commission), written statements of the daily procurement practices and procedures to be used and of the

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objectives intended to be accomplished by such practices and procedures. The Contractor will not use any procurement procedures prohibited by this contract or which the Commission has advised the Contractor are contrary to Commission policy.

- c. The Contractor shall obtain the prior written approval of the Commission before (i) purchasing motor vehicles, airplanes, typewriters or printing equipment, (ii) leasing, purchasing, or otherwise acquiring real property, and (iii) purchasing any item which the Commission specifies is to be obtained from indicated Government sources, where payment for the cost of any action specified in (i) through (iii) will be claimed hereunder.

2. Writing; Terms: The Contractor shall reduce to writing, unless this provision is waived in writing by the Commission, every subcontract or other commitment in excess of One Hundred Dollars (\$100.00) made by it for the purpose of its undertakings hereunder, except contracts covering the employer-employee relation (but not excepting contracts with consultants); insert therein a provision that such commitment is assignable to the Government; insert therein all other provisions required by law or expressly required by the provisions of this contract; and make all such commitments in its own name and not bind or purport to bind the Government or the Commission thereunder.

3. Procurement from Government Sources: From time to time, by separate instrument or instruments, the Contractor may be duly authorized to act as agent for and on behalf of the Government or the Commission respecting (i) the making of procurements in and for performance under this contract from so-called Government sources such as Federal Supply Schedule commercial sources Armed Services Petroleum Purchasing Agency, Federal Prison Industries, Inc. and Federal Supply Service, and (ii) the issuing of tax exemption certificates pertinent to such procurements. The action so authorized shall be deemed to be within the scope of the Contractor's allowable cost of work performance under this contract.

ARTICLE X - CONDUCT OF THE WORK, INSPECTION AND REPORTS

1. In performing the work called for under this contract, the Contractor,

- (i) shall utilize its best efforts, know-how and ability,
- (ii) shall have the work executed in the best and most workmanlike manner by qualified, careful and efficient workers in strict conformity, with the best standard practices (subject to the directions of the Commission)
- (iii) shall provide sufficient technical, supervisory, administrative and other personnel to insure the prosecution of the work in accordance with pertinent production or other progress schedules,

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- (iv) shall, if in the opinion of the Commission the Contractor falls behind any pertinent production or other progress schedule, take such steps to improve its progress as the Commission may direct, and
- (v) shall, if in the opinion of the Commission, the Contractor's personnel or other reimbursable costs are excessive for the proper performance of this contract, make such reductions thereof as the Commission may direct.

2. The work of this contract is subject to (i) the general supervision of the Commission, and (ii) the Commission authorizations, approvals and directions otherwise provided for in this contract. The Contractor shall proceed in the performance of this contract and shall place emphasis (or relative emphasis) on the various phases of the work of said contract, as and to the extent requested by the Commission from time to time. The Commission shall have the right to inspect in such manner and at such times as it deems appropriate, all activities of the Contractor in, or related to the course of the work under this contract.

3. The Contractor shall keep the Commission fully advised of its progress hereunder and of the difficulties, if any, which it experiences and shall prepare and submit to the Commission, in such quantity and form as may be directed by the Commission,

- a. monthly progress reports,
- b. interim technical reports on completion of specific phases of the work,
- c. production schedules, financial and cost reports, construction completion reports and such other special reports as may be requested by the Commission from time to time, and
- d. a final report summarizing its activities, findings, and conclusions.

4. The work under this contract shall be under the over-all direction of Dr. W. E. Kingston of the Contractor's staff unless and until the Commission otherwise directs or approves.

ARTICLE XI - CONSTRUCTION, ALTERATION OR REPAIR WORK

1. The Contractor shall not perform or have performed under this contract any construction, alteration or repair work in excess of \$2,000.00, including printing and decorating, without the prior written approval of the Commission.

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applicant, sponsor, or owner, as the case may be, for transmission to the Commission. The certification will affirm that the pay-rolls are correct and complete, that the wage rates contained therein are not less than those determined by the Secretary of Labor and that the classifications set forth for each laborer or mechanic conform with the work he performed. The Contractor will make his employment records available for inspection by authorized representatives of the Commission and the Department of Labor, and will permit such representatives to interview employees during working hours on the job.

- d. Apprentices will be permitted to work only under a bona fide apprenticeship program registered with a State Apprenticeship Council which is recognized by the Federal Committee on Apprenticeship, U. S. Department of Labor; or if no such recognized Council exists in a State, under a program registered with the Bureau of Apprenticeship, U. S. Department of Labor.
- e. The Contractor will comply with the regulations of the Secretary of Labor made pursuant to the Anti-Kickback Act of June 13, 1934, 48 Stat. 948; 62 Stat. 740; 63 Stat. 108; 18 U.S.C. 874, 40 U.S.C. 276 b, c, and any amendments or modifications thereof, will cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors subject thereto, and will be responsible for the submission of affidavits required of subcontractors thereunder, except as the Secretary of Labor may specifically provide for reasonable limitations, variations, tolerances and exemptions from the requirements thereof.
- f. The Contractor will insert in each of its subcontracts the provisions set forth in stipulations (a), (b), (c), (d), (e), and (g) hereof, and such other stipulations as the Commission may by appropriate instructions require.
- g. A breach of stipulations (a) through (f) may be grounds for termination of the contract.

ARTICLE XII - SCIENTIFIC AND TECHNICAL DATA

All compilations of scientific and technical data (including, but not limited to, reports, notes, drawings, designs, specifications and memoranda) furnished or prepared by the Contractor pursuant to, or developed in connection with, the Contractor's undertakings under this contract, shall be property of the Government and the Government shall have the right to use such material in any manner and for any purpose without any claim on the part of the Contractor for additional compensation therefor. All provisions of paragraphs 4, 5, 6, 7, 8 and 9 of Article V relating to Government property are applicable to such material.

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ARTICLE XIII - MISCELLANEOUS PROVISIONS

1. Source and Fissionable Materials:

The Contractor agrees to conform to all regulations and requirements of the Commission with respect to accounting for source and fissionable materials (defined in the Atomic Energy Act of 1946).

2. Guard and Fire Fighting Forces:

In connection with its work under this contract, the Contractor shall provide such guard or fire fighting forces, with such uniforms and equipment, as the Commission may from time to time require or approve.

3. Technical and Professional Assistance:

When, in the judgment of the Contractor, the complexity and nature of the contract undertakings are such as to require supplemental expert technical or professional assistance, services or advice in connection with special phases of a technical character, the Contractor may, with the written approval of the Commission, engage or otherwise obtain such supplemental services.

4. Security Action:

Upon notice from the Commission that such action is considered to be in the interests of the common defense and security, the Contractor shall (i) deny any employee or other person access to the site of any contract undertakings or to "restricted data" within the meaning of the Atomic Energy Act of 1946, or (ii) dismiss from its undertakings under this contract any employee or other person.

5. State and Local Taxes:

The Contractor shall notify the Commission of any tax, fee, assessment, duty or other charge asserted in behalf of the State, county, municipality, or any officer, commission, body or subdivision thereof, in connection with property which is or will be Government-owned property covered by Articles V, VII and XII hereof, or in connection with the allowable cost of the Contractor's performance under this contract and shall cause to be assigned to the Government or its designee, any and all rights to the abatement, refund or other recoupment of such charges paid under protest. Penalties and interest, if any, incurred through compliance with this paragraph shall be deemed to be allowable costs and expenses under paragraph 3 of Article IV hereof.

6. Claims and Suits:

The Contractor shall give the Commission immediate notice of any claim against the Contractor, or suit or action filed or commenced against the Contractor, arising out of or connected with the performance of this contract, irrespective of whether or not the cost or expense of such claim, suit or action,

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is an allowable cost hereunder and irrespective of whether the Contractor is insured against any risk which may be involved. The Contractor shall furnish immediately to the Commission copies of all pertinent papers received by the Contractor. Insofar as the following shall not conflict with any policy or contract of insurance, and to the extent requested by the Commission, the Contractor (A) shall promptly do any and all things to effect an assignment and subrogation in favor of the Government of all Contractor's rights and claims except as against the Government, arising from or growing out of any such claim, suit or action or (B) shall promptly authorize representatives of the Government to settle, defend or otherwise handle any such claim, suit or action and to represent the Contractor in, and take charge of, any litigation resulting therefrom, or (C) shall diligently handle any such claim, suit or action or defend or initiate any litigation, including proceedings before administrative agencies, in connection with any such claim, suit or action or any other claim or matter arising out of the performance of this contract and, in so doing, shall consult with the Commission as to the steps to be taken and shall otherwise endeavor in good faith to subserve the interests of the Government. With respect to any claim, matter or litigation, including proceedings before administrative agencies, arising out of the performance of this contract, the handling of which is undertaken by an insurance carrier or by a representative or representatives of the Government, the Contractor shall furnish all reasonable assistance and cooperation that may be requested by the Commission.

7. Bond and Insurance:

a. Except as otherwise specifically provided, the Contractor shall exert all reasonable efforts to procure and maintain such bonds and insurance policies as are (i) required by law, or (ii) required by the Commission.

b. Except as otherwise directed by the Commission, in every instance where the premium on a bond or insurance policy is an allowable cost under the contract, the bond or insurance policy shall contain endorsements or other recitals (i) excluding, by appropriate language, any claim on the part of the insurer or obligor to be subrogated, on payment of a loss or otherwise, to any claim against the United States, and (ii) providing for at least thirty (30) days prior written notice by registered mail to the United States Atomic Energy Commission of bond or policy cancellation, as the case may be.

8. Appendix "A"

The Contractor shall abide by the provisions of Appendix "A" of this contract, as the same may be modified from time to time, provided, however, that in the event of conflict between the provisions of said Appendix "A" and the other provisions of this contract, the latter shall prevail.

9. Definitions

As used in this contract, the terms "United States Atomic Energy Commission", "Atomic Energy Commission", and "Commission" shall mean the United States Atomic Energy Commission or its duly authorized representative or representatives.

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10. Contract Approval

This contract is subject to the approval of the Director of the Division of Production of the United States Atomic Energy Commission and shall not be binding unless so approved.

ARTICLE XIV - ADDITIONAL PROVISIONS

Appendic "B", as it may be amended, attached to this contract and incorporated herein, sets forth further provisions of this contract.

IN WITNESS WHEREOF, the parties hereto have executed this contract as of the day and year first above written.

THE UNITED STATES OF AMERICA

Witnesses:

By: UNITED STATES ATOMIC ENERGY COMMISSION

(Witness)

SYLVANIA ELECTRIC PRODUCTS, INC.

By: _____

Title: _____

(Witness)

I, _____, certify that I am the _____ of the corporation named as Contractor herein; that _____ who signed this contract on behalf of the Contractor was then _____ of said corporation; that said contract was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal of said corporation.

(Corporate Seal)

APPENDIX "B"

ARTICLE B-I - DISCLOSURE OF INFORMATION

1. It is understood that unauthorized disclosure of any, or failure to safeguard all, material marked as "Security Information" that may come to the Contractor, or any person under its control, in connection with the work under this contract may subject the Contractor, its agents, and employees to criminal liability under the laws of the United States. See the Atomic Energy Act of 1946, 60 Stat. 755, as amended, Title 42, United States Code, Sec. 1801, et. seq. See also Title 18, United States Code, Secs. 791 to 798, both inclusive, and Executive Order No. 10,104, February 1, 1950, 15 F.R. 597.

2. The Contractor agrees to conform to all security regulations and requirements of the Commission. Except as the Commission may authorize, in accordance with the Atomic Energy Act of 1946, as amended, the Contractor shall not permit any individual to have access to restricted data until the designated investigating agency shall have made an investigation and report to the Commission on the character, associations, and loyalty of such individual, and the Commission shall have determined that permitting such person to have access to restricted data will not endanger the common defense and security. As used in this paragraph the term "designated investigating agency" means the United States Civil Service Commission or the Federal Bureau of Investigation, or both, as determined pursuant to the provisions of the Atomic Energy Act of 1946, as amended by the Act of April 5, 1952, Public Law 298, 82nd Congress, 66 Stat. 43. The term "restricted data" as used in this paragraph means all data concerning the manufacture or utilization of atomic weapons, the production of fissionable material, or the use of fissionable material in the production of power, but shall not include any data which the Commission from time to time determines may be published without adversely affecting the common defense and security.

3. Except as otherwise authorized in writing by the Commission, the Contractor shall insert in all agreements, made pursuant to the provisions of this contract which may involve security information, the provisions of paragraphs 1 and 2 of this Article.

ARTICLE B-II - DISPUTES

Except as otherwise specifically provided in this contract, all disputes between the parties which may arise under, or in connection with, any part of this contract, prior to final payment, and which are not disposed of by mutual agreement, shall be decided by a representative of the Commission, duly authorized to supervise and administer performance of the undertakings hereunder, who shall reduce his decision to writing and mail a copy of said decision to the Contractor; said decision shall be final and conclusive on the parties hereto, subject to the right of the Contractor to appeal, as provided for in the sentence next following. Within thirty days from the mailing of said decision, the Contractor may appeal, in writing, to the Commission, whose written decision thereon, or that of its duly authorized representative, representatives, or Board (but not including

the Commission representative mentioned in the first sentence of this Article), duly authorized to determine such an appeal, shall be final and conclusive on the parties hereto. If any such dispute arises during performance by the Contractor of its undertakings hereunder, the Contractor shall diligently proceed with the performance of its undertakings under this contract, pending the decision of such dispute.

ARTICLE B-III - NON-DISCRIMINATION IN EMPLOYMENT

In connection with the performance of this contract, the Contractor agrees not to discriminate against any employee or applicant for employment because of race, creed, color, or national origin; and further agrees to insert the foregoing provision in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

ARTICLE B-IV - EIGHT-HOUR LAW

No laborer or mechanic doing any part of the work contemplated by this contract, in the employ of the Contractor or any subcontractor contracting for any part of said work contemplated, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this paragraph of the contract. The wages of every laborer or mechanic employed by the Contractor or any subcontractor engaged in the performance of this contract shall be computed on a basic day rate of eight hours per day and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirements of this paragraph of the contract a penalty of five dollars shall be imposed upon the Contractor for each laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this paragraph of the contract, and all penalties thus imposed shall be withheld for the use and benefit of the Government: Provided, That this stipulation shall be subject in all respects to the exceptions and provisions of the Eight-Hour Laws as set forth in U. S. Code, Title 40, Sections 321, 324, 325, 325a, and 326, which relate to hours of labor and compensation for overtime.

ARTICLE B-V - COMPLIANCE WITH LAWS

Except as otherwise directed by the Commission the Contractor shall procure all necessary permits and licenses; obey and abide by all applicable laws, regulations, ordinances, and other rules of the United States of America, of the State, territory, or political subdivision thereof, wherever the work is done, or of any other duly constituted public authority.

ARTICLE B-VI - ASSIGNMENT

Neither this contract nor any interest therein or claim thereunder shall be assigned or transferred by the Contractor except with the prior written approval of the Commission.

ARTICLE B-VII - LABOR DISPUTES

Whenever an actual or potential labor dispute interferes or threatens interference with the work of this contract, the Contractor shall immediately inform the Commission of such dispute and of the relevant facts.

ARTICLE B-VIII - OFFICIALS NOT TO BENEFIT

No member of or delegate to Congress or resident commissioner shall be admitted to any share or part of this ^{contract} or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE B-IX - COVENANT AGAINST CONTINGENT FEES

1. The Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty the Government shall have the right to annul this contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

2. Unless otherwise authorized by the Commission in writing the Contractor shall cause provisions similar to paragraph 1 above to be inserted in all subcontracts and purchase orders entered into under this contract.

ARTICLE B-X - CONVICT LABOR

In connection with the performance of this contract, the Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor. This provision shall not be construed to prevent the Contractor or any subcontractor from obtaining any of the supplies or any component parts or ingredients to be furnished under this contract or any of the materials or supplies to be used in connection with the performance of this contract, directly or indirectly, from any Federal, state or territorial prison or prison industry, provided, that such articles, materials

or supplies are not produced pursuant to any contract or other arrangements under which prison labor is hired or employed or used by any private person, firm or corporation.

ARTICLE B-XI - WALSH HEALEY ACT

To the extent only that the Walsh-Healey Public Contracts Acts, as amended (41 United States Code 35-45) is applicable to this contract, the following provisions shall apply:

- (a) There are hereby incorporated by reference, the representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

~~XXXXX~~
ARTICLE B-XII - SAFETY AND ACCIDENT PREVENTION

The Contractor shall initiate and take all reasonable steps and precautions to protect health and minimize danger from all hazards to life and property, shall make all reports and permit all inspections as required by the Commission, and shall conform to all health and safety regulations and requirements of the Commission.

ARTICLE B-XIII - DOMESTIC ARTICLES

1. Unless the Commission shall determine it to be inconsistent with the public interest, or the cost to be unreasonable, the Contractor, its subcontractors, and all materialmen or suppliers shall use, in the performance of the work, only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States, and only such manufactured articles, materials, or supplies as have been manufactured in the United States substantially all from articles, materials, or supplies, mined, produced or manufactured, as the case may be, in the United States. The provisions of this paragraph shall not apply if the articles, materials, or supplies of the class or kind to be used or the articles, materials, or supplies from which they are manufactured are not mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of satisfactory quality.

2. Unless otherwise authorized by the Commission in writing, the Contractor shall cause provisions similar to paragraph 1 above to be inserted in all subcontracts and purchase orders entered into under this contract.

A

Rec'd Aug 28

Responsive Record 19

This document consists of 4 pages
No. / of // copies, Series

UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office
P. O. Box 30, Ansonia Station
New York 23, New York

SR 840

GC:IJL:lm
AT(30-1)-1293

LETTER CONTRACT NO. AT(30-1)-1293

Modification No. 6

WSRO DECLASSIFICATION REVIEW

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York

ATTENTION: Dr. W. E. Kingston

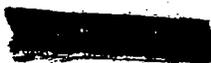
Gentlemen:

1st Review Date: 4/17/66	Determination (Circle Number)
Authority: <input checked="" type="checkbox"/> ADC <input type="checkbox"/> ADD	1. Classification Unchanged
Name: R. Collins	2. Classification Changed To:
2nd Review Date: 4/13/64	3. Classification Cancelled
Authority: ADD	4. Other: CANCEL-2 9/10
Name: A. W. H.	

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance, said Letter Contract, as previously modified, is hereby modified further, but only in the following particulars:

1. The date "September 30, 1952" is substituted for the date "August 31, 1952" in paragraph 6(a) of said Letter Contract.
2. Paragraph 5 of said Letter Contract is renumbered paragraph 5(a) and the following is inserted in said Letter Contract as paragraph 5(b):
 - "(b). i. The Government shall advance to the Contractor such interest-free sum or sums, for use as hereinafter in this paragraph 5(b) provided, as the Commission and the Contractor may mutually agree upon from time to time in writing without the execution of an amendment of this Letter Contract. The aggregate sum theretofore so advanced, less the portions thereof theretofore credited to, or repaid by, the Contractor, or otherwise recouped by the Government, at any given time, is hereinafter referred to as the 'advance payment'.



CONFIDENTIAL INFORMATION

SROO Response to
FOIA (SR) - 04-028



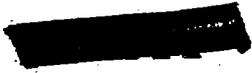
End

[REDACTED]

ii. The terms of this Letter Contract shall be considered adequate security for the advance payment; provided, however, that as a condition precedent to the making of any advance under this paragraph 5(b), the Contractor shall furnish to the Government such additional security as the Commission may prescribe; and provided, further, that if at any time the Commission deems the then security inadequate, the Contractor shall furnish to the Government such additional security, in the form of a surety bond or bonds, as is satisfactory to the Commission.

iii. From time to time the Contractor may make repayments on account of the advance payment. The advance payment, together with payments received pursuant to paragraph 5(a) above, shall at no time exceed the limiting amount set forth in said paragraph 5(a), and any such excess shall be immediately repaid by the Contractor to the Government, or, if any payment is due from the Government to the Contractor, shall be deducted therefrom. Moreover, if at any time, in the opinion of the Commission, the unliquidated balance of the advance payment exceeds the amount necessary for the current needs of the Contractor, the amount of such excess shall, upon demand by the Commission, be promptly repaid to the Government.

iv. Until the advance payment is fully liquidated, all funds received as advances under this Letter Contract, together with all funds received pursuant to paragraph 5(a) hereof, which cover expenditures made from the advance payment, shall be deposited in a special bank account or accounts at a member bank or banks of the Federal Reserve System or any 'Insured' bank within the meaning of the Act creating the Federal Deposit Insurance Corporation (Act of August 23, 1935; 49 Stat. 684) as amended (12 U. S.C. 264) separate from other funds. Such special bank account or accounts shall be designated so as to indicate clearly to the bank their special character and purpose, and the balance in such account or accounts shall be used by the Contractor exclusively as a revolving fund for performing its undertakings under this Letter Contract and not for any other business of the Contractor. Any balances from time to time in such special account or accounts shall at all times secure the repayment of the advance payment, and the Government shall have a lien upon such balances to secure the repayment of such advance payment, which lien shall be superior to any other lien upon such account or accounts; provided, that the bank shall be under no liability to any party hereto for the withdrawal of any funds from said special accounts upon checks, properly indorsed and signed by the Contractor, except that after the receipt by the bank of written directions from the Commission the bank shall act thereon and be under no liability to any party hereto for any action taken in accordance with the said written directions. Any instructions or written directions received by the bank in due course upon U. S. Atomic Energy Commission stationery and purporting to be signed by, in behalf, or at the direction of, the Commission



or its duly authorized representative shall, insofar as the rights, duties, and liabilities of the bank are concerned, be conclusively deemed to have liabilities of the bank are concerned, be conclusively deemed to have been properly issued and filed with the bank by the Commission.

v. Subject to the approval of the Commission, the Contractor may make sub-advances to subcontractors and materialmen. The subcontractors or materialmen to whom such advances are made shall furnish adequate security therefor. Unless other security approved and required by the Commission is furnished, covenants in subcontracts or purchase agreements expressly made for the benefit of the Government, providing for a sub-special account with Government lien thereon and for a Government lien on or title to property, tangible or intangible, purchased from the special account, and imposing upon the subcontractor or materialman substantially the same rights as are provided herein between the Government and the Contractor, shall be deemed minimum adequate security for such sub-advances.

vi. The Contractor shall, at all reasonable times, afford to the Commission proper facilities for the inspection and audit of the Contractor's pertinent accounts, and the Contractor hereby agrees that the Commission may, so far as the Contractor's rights are concerned, during business hours, inspect and make copies of any entries in the books and records of the bank or banks relating to the said special account or accounts.

vii. Any assignment of monies due or to become due under this Letter Contract shall be subordinate to the rights or claims of the Government arising under this Letter Contract by virtue of the advance payment or otherwise.

viii. If upon termination of this Letter Contract, pursuant to either paragraph 6(a) or paragraph 6(b) hereof, the advance payment has not been fully liquidated, the unliquidated balance of the advance payment shall be deducted from any payments otherwise due the Contractor under this Letter Contract; and if the sum or sums due the Contractor be insufficient to cover such balance, the deficiency shall be paid by the Contractor in cash forthwith after demand and final audit by the Commission of all accounts respecting this Letter Contract; provided, however, that such deduction shall not be made prior to such final audit unless, and then only to the extent that, the Commission determines that such action is reasonably required in order to secure the eventual repayment in full to the Government of the unliquidated advance payment. If any demand made in accordance with this subparagraph viii. is not met upon receipt of such demand by the Contractor, the amount demanded will bear interest at the rate of six per cent (6%) per annum from the date of the receipt of the demand until payment is made; provided, however, that such payment of interest is hereby waived as to any sum repaid by the Contractor within fifteen (15)

[REDACTED]

days after the amount becomes due. If and when the advance payment has been fully liquidated, any money remaining in the special bank account or accounts shall be free and clear of any lien under this paragraph 5(b) and the bank or banks concerned shall have authority to pay same to the Contractor."

3. The following provision is added to said Letter Contract as paragraph 16 thereof:

"16. (a) The Contractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of three years after final payment under this Letter Contract, have access to and the right to examine any directly pertinent books, documents, papers and records of the Contractor involving transactions related to this Letter Contract.

(b) The Contractor further agrees to include in all his subcontracts hereunder a provision to the effect that the subcontractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of three years after final payment under this Letter Contract with the Government, have access to and the right to examine any directly pertinent books, documents, papers, and records of such subcontractor involving transactions related to the subcontract. The term subcontract as used herein does not include (i) purchase orders not exceeding \$500, or (ii) contracts or purchase orders for public utility services at rates established for uniform applicability to the general public.

(c) Nothing in this Letter Contract shall be deemed to preclude an audit by the General Accounting Office of any transaction under this Letter Contract."

This Letter executed in triplicate on behalf of the United States is forwarded to you for your consideration. If satisfactory, it is requested that the following acceptance form on copies 1 and 2 hereof be executed on behalf of your company and such copies returned to this office as promptly as possible. Copy 3 is for your retention. Such acceptance will constitute this Letter an amendment of said Letter to the extent set forth herein.

Accepted:

SYLVANIA ELECTRIC PRODUCTS, INC.

By: *E. W. Carles*

Title: Vice President

Very truly yours,

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

H. B. Fry

H. B. FRY
AUTHORIZED REPRESENTATIVE OF THE
U. S. ATOMIC ENERGY COMMISSION

B

This document consists of [redacted] pages
No. [redacted] of [redacted] Series A.

SR 839

UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office
P. O. Box 30, Ansonia Station
New York 23, New York

GC:LJL:cc
AT(30-1)-1293

LETTER CONTRACT NO. AT(30-1)-1293
Modification No. 7

Dated: September 30, 1952	
WSRC DECLASSIFICATION REVIEW	
1st Review Date: 9/28/52	Determination (Circle Number)
Authority: <input checked="" type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: R. Collins	2. Classification Changed To:
2nd Review Date: 4/28/54	
Authority: ADD	3. Classification Cancelled
Name: [Signature]	4. Other: C6-NMA-2

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York

ATTENTION: Dr. W. E. Kingston

Gentlemen:

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance, said Letter Contract, as previously modified, is hereby modified further, but only in the following particular:

1. The date "October 31, 1952" is substituted for "September 30, 1952" in paragraph 6(a) of said Letter Contract.

This Letter executed in triplicate on behalf of the United States is forwarded to you for your consideration. If satisfactory, it is requested that the following acceptance form on copies 1 and 2 hereof be executed on behalf of your company and such copies returned to this office as promptly as possible. Copy 3 is for your retention. Such acceptance will constitute this Letter an amendment of said Letter Contract to the extent set forth herein.

Very truly yours,

THE UNITED STATES OF AMERICA
By: UNITED STATES ATOMIC ENERGY COMMISSION

Accepted: September 30, 1952.

SYLVANIA ELECTRIC PRODUCTS, INC.

By: [Signature]

Title: Vice President

[Signature]
E. M. Belmore, Acting Manager

C

This document consists of 8 pages.
No. 1 of Series

SR 838

UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office
P. O. Box 30, Ansonia Station
New York 23, New York

GC:IJL:be
AT(30-1)-1293

LETTER CONTRACT NO. AT(30-1)-1293
Modification No. 8
Dated: October 31, 1952

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York
ATTENTION: Dr. W. E. Kingston

Gentlemen:

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance, said Letter Contract, as previously modified, hereby is modified further, but only in the following particular:

- 1. The date "November 30, 1952" is substituted for "October 31, 1952" in paragraph 6 (a) of said Letter Contract.

If this modification is acceptable to you, please sign and return two copies thereof to this office as soon as possible.

Very truly yours,

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

Accepted: October 31, 1952

SYLVANIA ELECTRIC PRODUCTS, INC.

By: E. Stanley Carter

Title: Vice President

WSRC DECLASSIFICATION REVIEW	
1st Review Date: <u>4/28/04</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>RT Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/04</u>	
Authority: <u>ADD</u>	<u>3. Classification Cancelled</u>
Name: <u>[Signature]</u>	4. Other: <u>C-AMA-2 9/12</u>

H. H. FINE
AUTHORIZED REPRESENTATIVE OF THE
U. S. ATOMIC ENERGY COMMISSION

OCT 31 1952

89988453

D

This document consists of 1 pages.
No. / of / Series

UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office
P. O. Box 30, Ansonia Station
New York 23, New York

SR 837

GC:IJL:cc
AT(30-1)-1293

LETTER CONTRACT NO. AT(30-1)-1293
Modification No. 9

Dated: November 30, 1952
WSRC DECLASSIFICATION REVIEW

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York

ATTENTION: Dr. W. E. Kingston

Gentlemen:

1st Review Date: 4/28/04	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: RL Collins	2. Classification Changed To:
2nd Review Date: 9/24/04	3. Classification Cancelled
Authority: ADD	4 Other: CG-NMP-2 9/
Name: W. E. Kingston	

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance, said Letter Contract, as previously modified, is modified further, but only in the following particular:

1. The date "January 31, 1953" is substituted for "November 30, 1952" in paragraph 6(a) of said Letter Contract.

If this modification is acceptable to you, please sign and return two copies thereof to this office as soon as possible.

Very truly yours,

Accepted: November 30, 1952.

THE UNITED STATES OF AMERICA

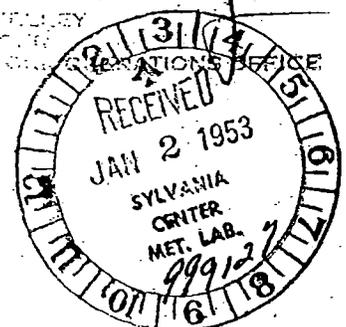
SYLVANIA ELECTRIC PRODUCTS, INC.

By: UNITED STATES ATOMIC ENERGY COMMISSION

By: W. E. Kingston

W. E. KINGSTON
MANAGING
NEW YORK OPERATIONS OFFICE

Title: Vice President



E

This document consists of / page
No. / of / copies. Series /.

UNITED STATES
ATOMIC ENERGY COMMISSION
P. O. Box 30, Ansonia Station
New York 23, New York

SN 886

GC:IJL:cc
AT(30-1)-1293

LETTER CONTRACT NO. AT(30-1)-1293
Modification No. 10
Dated: January 13, 1953

Sylvania Electric Products, Inc.
P. O. Box 6
Bayside, Long Island, New York

ATTENTION: Mr. E. Finley Carter, Vice President

Gentlemen:

Reference is made to Letter Contract No. AT(30-1)-1293, dated December 10, 1951, whereby you undertook to conduct certain studies, experimental investigations, and other research and development work.

Subject to your written acceptance, said Letter Contract, as previously modified, is modified further, but only in the following particulars:

1. The date "February 28, 1953" is substituted for "January 31, 1953" in paragraph 6(a) of said Letter Contract.
2. The amount "Two Million Five Hundred Thousand Dollars (\$2,500,000.00)" is substituted for "Two Million Dollars (\$2,000,000.00)" in paragraph 5(a) of said Letter Contract.

If this modification is acceptable to you, please sign and return two copies thereof to this office as soon as possible.

Very truly yours,

Accepted: January 19, 1953.

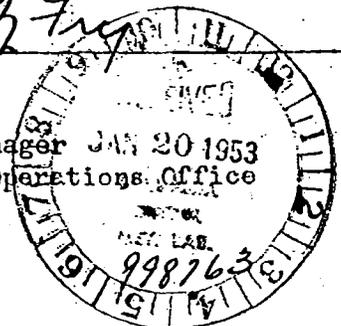
SYLVANIA ELECTRIC PRODUCTS, INC.

By: E. Finley Carter
Title: Vice President

THE UNITED STATES OF AMERICA

By: H. B. Fry

H. B. Fry
Acting Manager
New York Operations Office



JAN 29 1953

W. E. Kelley, Manager
New York Operations Office

R. W. Cook
Director of Production

*1 cc
Sylvia Banks
10-26-54
dc*

APPROVAL OF AWARD OF CONTRACT NO. AT(30-1)-1293 WITH SYLVANIA ELECTRIC PRODUCTS, INCORPORATED

SYMBOL: P:JAD

CONTROL COPY

With reference to your memorandum of December 24, 1952, Symbol: CO:HG:ak, subject as above, you are authorized to proceed with the execution of the contract document with Sylvania Electric Products Inc., in the contract amount of \$3,253,897. We note that the definitive contract has a completion date of June 30, 1953.

I have signed the Findings and Determination authorizing the use of a CPFF contract with Sylvania Electric Products Inc. You may note that some slight modifications have been made in the drafts of the Findings and Determination which you submitted to us for review, in particular, the elimination of the phrase "that the use of a cost-plus-fixed-fee contract is likely to be less costly than any other type of contract for the services to be procured."

Review of the latest draft contract document has just been completed by the Washington staff and it is our understanding that the Office of General Counsel has discussed with your Assistant Counsel, Mrs. Duncombe, many of the points they have raised in their comments to us. It is our further understanding that you contemplate entering into contract modifications of the following points raised by the Office of General Counsel:

1. Recommendation is made that the liability of the Government to pay the entire amount of the use and occupancy allowance during periods when the plant is unavailable in whole or part, due to casualty, be clarified (Article III 2. d., IV 3. j.)

2. The draft contract provides that the use and occupancy allowance is in lieu, among other things, of such costs of alterations, additions, improvements, remodeling, or reconstruction of the facilities as are not allowable costs under the contract (Article IV 3.j. (vi)). This creates a question of whether the use and occupancy allowance is to be considered in offset to the purchase price of additions and improvements under Article VI. Mrs. Duncombe informs us that such an offset was not intended, and that they have already changed the contract to delete (vi) from Article IV 3.j., and to add to Article IV. 4. a provision specifying the types of additions, improvements, etc., that are to be treated as unallowable costs.

RESTRICTED DATA

This document contains restricted data as defined in the Atomic Energy Act of 1954. Its transmittal or the disclosure of its contents in any manner to an unauthorized person is prohibited.

"When separated from enclosures, handle this document

as Unclassified
(Insert proper classification)

CONTRACTS - *Sylvania Electric*

SECRET
SECURITY INFORMATION

FRC Swithand
JAN 1953
Office of Prod
Box 23
F-25 - NYOO-1952

SECRET
SECURITY INFORMATION

3. In order to provide more flexibility with respect to AEC control over litigation under Article XXV 2., Mrs. Duncombe has suggested and we concur in the substitution of "or" in lieu of "and" just before "(ii)", in the next to the last line of page 33.

4. The draft contract document under Article III 2. e. makes it mandatory upon the Government to assume all obligations incurred by the contractor in connection with the terminated work. Commission standard forms of CPFF and A-E contracts leave this provision discretionary. It was Mrs. Duncombe's understanding that the Sylvania contract provision followed procurement instructions but this does not seem to be the case insofar as the Office of General Counsel and the Division of Construction and Supply are concerned. It is our understanding that no procurement instructions exist making it mandatory that AEC assume all contract obligations on termination. In the lack of overriding policy considerations, it would appear desirable to give AEC discretion under the contract to require the contractor to close out these obligations, particularly where it is clear, as here, that close-out expenses are reimbursable.

5. Referring to the Record of Negotiations on page 33 there is indication that AEC was to assume the decontamination and restoration of the facilities if it did not exercise its purchase option. The contract provisions (see particularly Article V 10. (c)) in this regard seem to limit the Government's liability to restoration of structure, reasonable wear and tear excepted, in case of removal of Government property that is structurally incorporated in the facilities. On this point, it is our understanding that Mrs. Duncombe is of the opinion that there was no agreement that AEC would completely decontaminate and restore, that the record would be supplemented to indicate that facts in this regard, and that Sylvania had reviewed and accepted the contract provisions in their present form.

The Office of General Counsel has further noted that the termination article (Article III) contemplates that AEC will bear close-out expenses even where the termination is for default. (Article III 2. e. (iii)). It is our understanding that this was insisted upon by the contractor.

Based upon this understanding you are authorized to execute the contract as it is now drafted and the modifications to take care of the above points can be executed at a later date when convenient to you and the contractor. In accordance with understandings reached by phone, you and the contractor will execute this contract and return it to me for manual approval.

The Division of Construction and Supply coordinated comments from the Divisions of Finance, Organization and Personnel, and Construction and Supply, and presented comments to us which they considered pertinent. A copy of their memorandum dated January 23, 1953, is enclosed. We suggest you review these comments in the light of conversations that took place

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SECURITY INFORMATION

SECRET
SECURITY INFORMATION

in New York on November 25 with members of the Commission's Washington staff, and the Record of Negotiations and incorporate in the contemplated modification to the contract those points which are considered appropriate and possible of incorporation.

Returned herewith are copies 1A, 2A, and 3A of the Record of Negotiations and copies 1A, 2A, and 3A of the proposed contract. We are also returning for your records Appendix B to the contract. We have retained one copy here for our files.

We sincerely regret the length of time that it has taken the Washington staff to review this draft contract document. We hope that substantial improvement in this regard can be made in the future.

Enclosures:

1. Memo (cc) dtd 1/23/53 from Bloch to Cook
2. Cys 1A, 2A, 3A, Record of Negotiations
3. Cys 1A, 2A, 3A, Sylvania draft contract
4. Cys 1A and 2A, Findings & Determination
5. Cys 1A through 7A, Appendix A

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USDOE 002825

A

This document consists of ⁵³ pages.
No. 2 of 2 copies, Series A .

CONTRACT NO. AT(30-1)-1293

CONTRACT

CONTRACTOR AND ADDRESS:

SYLVANIA ELECTRIC PRODUCTS, INC.
1740 Broadway
New York, New York

CONTRACT FOR:

RESEARCH AND DEVELOPMENT

TERM OF CONTRACT:

December 10, 1951 to June 30, 1953

LIMIT OF GOVERNMENT LIABILITY:

\$3,253,897.00

PAYMENT TO BE MADE BY:

Division of Disbursement,
United States Treasury Department,
New York, New York.
Submit invoices to:
United States Atomic Energy Commission,
P. O. Box 30, Ansonia Station,
New York 23, New York

BASIS OF AWARD:

NEGOTIATION

Priority Rating

In accordance with authority delegated to the Atomic Energy Commission by the National Production Authority, this contract is rated DO-E-2, certified under NPA Regulation 2.



Authorized Representative

SROO Response to
FOIA (SR) - 04-028

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THIS CONTRACT, entered into as of the 10th day of December, 1951, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), acting through the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC. (hereinafter referred to as the "Contractor"), a corporation organized and existing under the laws of the Commonwealth of Massachusetts, with its principal place of business in New York City, New York;

WITNESSETH THAT:

WHEREAS, by Letter Contract No. AT(30-1)-1293, dated December 10, 1951, the Government and the Contractor agreed, among other things, that the Contractor would perform for the Government the research and development work provided for in said Letter Contract; and

WHEREAS, the Government and the Contractor, as contemplated by said Letter Contract, have negotiated and arrived at this definitive agreement which merges with and supersedes said Letter Contract; and

WHEREAS, this contract is authorized by law, including the Atomic Energy Act of 1946;

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I - SCOPE OF THE WORK

1. The Contractor shall conduct studies, experimental investigations and other research and development work for the Government, the details of which research and development work are set forth in the classified Appendix 'B' to this contract. A copy of said Appendix 'B' signed by the Contractor is on file in the offices of the Commission and said Appendix 'B' is incorporated herein by reference and made a part hereof.
2. The Contractor shall furnish all materials, equipment, facilities and premises, and all other properties and services requisite to the proper performance of the work under this contract, except to the extent that the Government may elect to furnish such properties or services.

ARTICLE II - SITE OF THE WORK

1. Principal Site

The principal site of the work of this contract shall be the land and plant of the Contractor on Cantiague Road in Hicksville, Long Island, including, but only from January 1, 1953 on, the one-story frame building at this location, leased at the date of commencement of the period of performance of the work of this contract, to the United States Department

of Agriculture, unless the Commission approves a substitute site in writing and until the date approved by the Commission for such substitution.

2. Alteration at Site

The Contractor shall alter the plant and other facilities at any principal site of the work, referred to in paragraph 1 above, to the extent the Commission considers such alterations necessary to the proper performance of the work hereunder.

3. Transfer of Site

The Contractor shall not sell, lease, license or otherwise transfer ownership or occupancy of any plant space or other facilities at any principal site of the work referred to in paragraph 1 above, or of said site or any portion thereof, without the approval of the Commission.

4. Non-Contract Activities

The Contractor shall not engage in or permit others to engage in activities other than activities in performance of the work of this contract at any principal site of the work referred to in paragraph 1 above, without the approval of the Commission.

5. Request for Approval

Any request of the Contractor to the Commission for approval pursuant to either of paragraphs 3 or 4 above, shall specify the extent of such transfer or non-contract activities and should further specify the Contractor's proposed reduction in the allowance for use and occupancy set forth in paragraph 3 of Article IV, CONSIDERATION, and the Contractor's estimate of the reduction in other costs of this contract to the Government that would result should the Commission grant the requested approval. Any reduction in the allowance for use and occupancy agreed upon shall be set forth in an amendment to this contract.

ARTICLE III - TERM, EXPIRATION AND TERMINATION

1. The period of performance of the work under this contract shall commence on December 10, 1951 and, subject to the provisions of this Article, shall end on June 30, 1953.

2. Termination

a. For Default.

The Government may at any time terminate performance of the work under this contract for the default of the Contractor.

b. For the Convenience of the Government.

The Government, at its election, may for its convenience, (i) from time to time terminate in part performance of work under this contract, or (ii) at any time terminate in whole the performance of the work under this contract.

c. Notice of Termination.

Termination, under this paragraph, shall be effected by delivery to the Contractor of a written notice of termination, which notice (i) shall specify a date upon which said termination shall become effective, which date shall be at least sixty (60) days after the delivery of said notice; (ii) in the event of a termination in part, shall specify the portion or portions of the work so terminated and the period or periods during which said termination shall be effective; and (iii) shall specify whether said termination is for the default of the Contractor or for the convenience of the Government. Upon receipt of said notice of termination, the Contractor promptly, except as the notice may direct otherwise, shall (i) discontinue all terminated work as soon as is reasonably practicable, if the notice so directs, and in any event by the date specified in said notice of termination; (ii) cease all placing of orders for property or services in connection with the performance of the terminated work; (iii) proceed to the best of its ability to terminate all orders and subcontracts to the extent that they relate to the terminated work; (iv) assign to the Government in the manner and to the extent directed by the Commission, all the right, title and interest of the Contractor under the terminated portion of the orders and subcontracts so terminated; (v) settle, with the approval of the Commission, all subcontracts, obligations, commitments and claims related to the terminated work, the cost of which would be allowable in accordance with the provisions of this contract; (vi) continue performance of such part of the contract work, if any, as shall not have been terminated; and (vii) take such other action with respect to the terminated work as may be required under other Articles of this contract and, subject to the approval of the Commission, as may be otherwise appropriate, including but not limited to, action for the protection and preservation of Government property.

d. Entry by Government After Default.

- (i) If performance of the work under this contract is terminated for the default of the Contractor, the Government (1) may exercise the option granted in Article VI, OPTION IN THE GOVERNMENT, to purchase the principal site of the work hereunder; (2) may exercise the right given in item (ii) of this subparagraph.
- (ii) Instead of exercising the option to purchase referred to in (i) above, the Government may elect, pursuant to this subsection, to occupy the property for a period not to exceed one year by paying the Contractor a monthly charge in full satisfaction of all claims of the Contractor arising out of said entry and occupancy, including a claim for the fair rental value of said premises and facilities. Said monthly charge will be one-twelfth the yearly allowance for use and occupancy set forth in subparagraph j of paragraph 3 of Article IV, CONSIDERATION.
- (iii) After termination for the default of the Contractor, and the exercise of either the option or right referred to in subparagraphs (i) and (ii) above, the Government may (a) enter upon and have exclusive occupancy of any principal site of the work described as such in paragraph 1 of Article II, SITE OF THE WORK, (b) take possession, for the period of such occupancy, of all materials, tools, machinery and appliances therein which may be owned by or are in the possession of the Contractor, (c) exercise during said occupancy all options, privileges and rights belonging to or exercisable by the Contractor in connection with such premises and facilities, and (d) complete or employ others to complete, the work of this contract therein. Said occupancy if done under (ii) above shall be for a period not to exceed one year.
- (iv) In addition, the Commission shall within the limits of its authority, indemnify and hold the Contractor harmless against any damages finally awarded in court actions or settlements made with the consent of the Commission, and against expenses incident to such court actions or settlements, where such actions and settlements are based on claims by third parties against the Contractor arising out of actions by the Government in use and occupancy of said premises and facilities pursuant to this subparagraph d.

e. Terms of Settlement.

Upon a termination of performance of all or part of the work under this contract, full and complete settlement of all claims of the Contractor with respect to the work of this contract so terminated shall be made as follows:

- (i) Assumption of Contractor's obligations. The Government may at the discretion of the Commission, assume and become liable for all obligations, commitments, and claims that the Contractor may have theretofore in good faith undertaken or incurred in connection with the terminated work, the cost of which would be allowable in accordance with the provisions of this contract; and the

Contractor shall, as a condition of receiving the payments mentioned in this Article, execute and deliver all such papers and take all such steps as the Commission may require for the purpose of fully vesting in the Government all the rights and benefits of the Contractor under such obligations or commitments.

- (ii) Payment for Allowable Costs. The Government shall reimburse the Contractor or allow credit for all allowable costs incurred in the performance of the terminated work and not previously reimbursed or otherwise discharged.
- (iii) Payment for Close-Out Expense. The Government shall reimburse the Contractor (a) for such close-out expenses, (b) for such further expenditures as are made after the date of termination for the protection of the Government property, and (c) for such legal and accounting services in connection with settlement, as are required or approved by the Commission.
- (iv) Payment on Account of the Fixed Fee.
 - a. If the performance of the work under this contract is terminated in whole for the default of the Contractor, no further payment on account of the fixed fee set forth in subparagraph a. of paragraph 1 of Article IV, CONSIDERATION, shall be made.
 - b. If the performance of the work under this contract is terminated in whole for the convenience of the Government, the Contractor shall be paid that portion of the fixed fee which the work actually completed, as determined by the Commission, bears to the entire work under this contract less payments previously made on account of the fee.
 - c. If the performance of the work under this contract is terminated in part for the convenience of the Government, the Contractor and the Commission shall promptly negotiate to agree upon an equitable adjustment of the fixed fee set forth in subparagraph a. of paragraph 1 of Article IV, CONSIDERATION, and the agreement reached shall be evidenced by a written, executed supplemental agreement to this contract. If the Contractor and the Commission fail to so agree upon such fee adjustment, within a reasonable time after such partial termination, the failure to agree shall be disposed of in accordance with Article XIV, DISPUTES, hereof.

3. Expiration. In the event of expiration of the period of work performance hereunder without prior termination hereof, the Contractor shall (i) discontinue the contract work at the end of the day of expiration and (ii) take such other action as may be required under other provisions of this contract and, subject to the approval or ratification of the Commission, as may be otherwise appropriate, including but not limited to, action for the protection and preservation of Government property.

4. Claims in Favor of the Government. The obligation of the Government to make any of the payments required by this Article shall be subject to any unsettled claims in connection with this contract which the Government may have against the Contractor. Nothing contained in this Article shall be construed to limit or affect any other remedies which the Government may have as a result of a default by the Contractor.

5. Settlement upon Termination or Expiration. Any other provisions of this contract to the contrary notwithstanding, the Contractor and the Commission may agree upon the whole or any part of the amount or amounts which the Contractor is to receive upon and in connection with (i) any termination pursuant to this Article or (ii) expiration of the term of this contract without prior termination thereof. Any agreement so reached shall be evidenced by a written supplemental agreement to this contract which shall be final and binding upon the parties with regard to their respective claims against each other except as therein otherwise expressly provided.

ARTICLE IV - CONSIDERATION

1. Compensation for Contractor's Services.

As full consideration for the performance by the Contractor of the work of this contract (including (i) profit on all items and for all work, and (ii) reimbursement for all costs and expenses listed hereunder as unallowable costs or otherwise not allowable under the terms of this contract) the Contractor shall receive from the Government:

- a. A fixed fee of One Hundred Twenty Thousand Dollars (\$120,000.00).
- b. Payment for allowable costs as hereinafter provided.

2. Basis for Determination of Allowable Costs.

The costs allowable under this contract shall be costs and expenses which are actually incurred by the Contractor in performing the work under this contract and which are necessary or incident to that performance. Allowable costs shall include, without limitation on the generality of the foregoing, the items described as allowable in paragraph 3 of this Article but shall not in any event include the items described as

unallowable in paragraph 4 of this Article except to the extent indicated therein. Failure to mention any item of cost in this Article is not intended to imply that it is either allowable or unallowable.

3. Examples of Allowable Costs.

The following are examples of items, the cost of which is allowable under this contract to the extent indicated:

a. Bonds and insurance, including self-insurance, approved by the Commission, the cost of which is not excluded by other provisions of this contract.

b. Transportation and communication, including (i) reconsignment, switching, demurrage and diversion charges, (ii) loading, unloading, storage, crating and packing charges, (iii) local and long distance telephone charges, facsimile and teletype messages, telegrams, cablegrams, radiograms, postage, post office box rental, messenger charges and delivery services.

c. Materials, supplies, tools, machinery, equipment, fuel and utilities, including the cost of processing and testing thereof by others and inspection, expediting, storage, salvage and other usual expenses incident to the procurement and use thereof, subject to the approvals required under any other provisions of this contract.

(i) The Contractor may use in its performance of the work of this contract, items manufactured by it in the ordinary course of its commercial business, provided that the Commission grants approval to each such use and provided further that the Commission and the Contractor shall have agreed, prior to any such approval, in writing but not necessarily by execution of an amendment to this contract, upon a unit price or prices for such items. The unit price or prices so agreed upon may include profit.

(ii) The Contractor may withdraw from its general stores and use in its performance of the work of this contract items purchased by it before or during the period of performance of this contract for its general stores, provided that such withdrawal and use of said items shall be in accordance with the Contractor's statements of its daily procurement practices and procedures submitted to the Commission and approved by the Commission pursuant to subparagraph b of paragraph 1 of Article IX, PROCUREMENT AND SUBCONTRACTS. The cost of any such item shall be determined in accordance with last-in, first-out inventory accounting principles.

(iii) The Commission shall have the right to inspect any item provided by the Contractor for the work of this contract pursuant to sub-subparagraphs (i) and (ii) above and to reject any or all of such items which the Commission determines to be defective, in which event there shall be no cost to the Government on account of such rejected items and the Contractor shall at its own non-allowable cost and expense, remove all such rejected items from any site of the work to which they may have been delivered. The failure of the Government to inspect and reject any such item prior to its use by the Contractor in the work of this contract in accordance with the provisions of sub-subparagraphs (i) and (ii) above shall be deemed inspection and acceptance thereof, except as to latent defects, fraud and such gross negligence as constitutes fraud.

d. Patents, purchased designs and royalty payments, to the extent approved by the Commission.

e. Expert technical or professional assistance to the extent allowed by Article XXII, TECHNICAL AND PROFESSIONAL ASSISTANCE.

f. Taxes, fees and charges, levied by public authorities, which the Contractor is required by law to pay, except these which are imposed upon or arise by reason of or are measured by the Contractor's fee or which are excluded pursuant to other provisions of this contract. This item shall include interest costs and penalties incurred by the Contractor in compliance with Article XX, STATE AND LOCAL TAXES AND FEES, hereof.

g. In accordance with Appendix "A", or modifications thereto, labor (whether as wages, salaries, benefits, or other compensation, as prescribed by the Contractor's employment and employee welfare policies), recruiting of personnel, (including "help wanted" advertising), travel (including subsistence during travel), and the transportation of personnel and their household goods and effects. In case the full time of an employee of the Contractor is not applied to the work of this contract, the cost of his labor shall be included in this item only in proportion to the actual time so employed.

h. Expenses of litigation, including reasonable counsel fees, incurred in accordance with the provisions of this contract, and such other legal, accounting, and consulting fees as are approved by the Commission.

i. Alterations, additions, improvements and repairs to, and remodeling, reconstruction and ordinary maintenance of, facilities employed by the Contractor in performing the work of this contract, in accordance with Article XI, CONSTRUCTION, ALTERATION, AND REPAIR.

j. An allowance of Forty-One Thousand Seven Hundred Eighty Dollars (\$41,780.00) for the period from March 1, 1952 to December 31, 1952,

and Fifty-Three Thousand Six Hundred Dollars (\$53,600.00) per year during the period thereafter of the Contractor's performance of the work of this contract at the Hicksville plant of the Contractor, prorated over said period. Said allowance is in lieu of any charge by the Contractor for the use and occupancy of said plant and is in lieu of costs and expenses actually incurred by the Contractor during said period for the following:

- (i) Depreciation of buildings on the Hicksville site of the work hereunder.
- (ii) Real estate taxes, including, among others, school, water, and sewage taxes and special assessments, on the land and buildings at said Hicksville site.
- (iii) Premiums for fire, smoke, storm, and hail insurance, and similar property insurance policies on the Contractor's Hicksville plant and on all property of the Contractor therein.
- (iv) Premiums for public liability insurance against damages to persons and properties of employees of the Contractor (except but not for Workmen's Compensation insurance) or of third persons, at the Contractor's Hicksville plant or resulting from the Contractor's operations therein.
- (v) Premiums for insurance against damages to motor vehicles, not Government-owned, used by the Contractor in connection with the work of this contract and against damages to persons and property resulting from operation by the Contractor and its employees of motor vehicles in connection with the work of this contract.

In the event the Hicksville plant is totally or partially made unusable for the performance of the work of this contract as a result of fire, explosion or other casualty, the Commission and the Contractor shall negotiate to agree upon an equitable downward adjustment of the allowance set forth in this subparagraph j. If the Commission and the Contractor fail to agree upon such adjustment within a reasonable time after such casualty, the failure to agree shall be disposed of in accordance with Article XIV, DISPUTES.

k. An allowance (in lieu of direct reimbursement) to cover the general and administrative expenses incurred by the Contractor's corporate office in New York City allocable to the work of this contract. The amount of this allowance shall be computed as a percentage, otherwise referred to herein as the G and A rate, of the costs of operation hereunder. For the purposes of this subparagraph costs of operation are defined as the costs, without duplication, incurred by the Contractor and allowable pursuant to subparagraphs a, b, c, e, g, l, n and o of this paragraph 3 but excluding costs of capital items of machinery and equipment procured for the work of this contract and including the costs of ordinary repairs and maintenance to any site of the work defined as a principle site of the work by Article II, SITE OF THE WORK.

- (i) A provisional G and A rate of three (3%) percent, subject to review and retroactive adjustment, is agreed upon at the commencement of this contract and the Government's

payments to the Contractor shall be based initially upon said provisional rate. As soon after each June 30th during the term of this contract (or as soon after any intervening date of termination or expiration thereof) as is practicable, the Commission in consultation with the Contractor, shall review the actual expense to, and obligation incurred by, the Contractor during the contract period from the close of the previous period reviewed (or the date of commencement of the contract if there has been no previous period reviewed) to said June 30th (or intervening date of termination or expiration) attributable to the elements of costs covered by this allowance. Based upon such review, the Commission and the Contractor shall negotiate and agree upon a fixed rate for the period reviewed. Said fixed rate shall retroactively replace the provisional rate hitherto in effect for the period reviewed. Said fixed rate, or any other rate which the Commission and the Contractor may agree upon at said negotiation, shall, as a new provisional rate, (i) retroactively replace the provisional rate hitherto in effect from the close of the contract period reviewed to the date of agreement on said new rate, and (ii) prospectively be the new provisional rate until it is in turn replaced pursuant to the foregoing by a new provisional or fixed rate. In the event that a provisional rate is replaced by a lower or higher fixed or provisional rate, suitable retroactive adjustments in the payments shall be made promptly. Failure to agree upon a fixed rate pursuant to the foregoing shall be considered a dispute to be settled in accordance with the provisions of Article XIV, DISPUTES, hereof.

l. Costs of providing cafeteria, restaurant, or food commissary services to employees of the Contractor directly engaged in the performance of the work hereunder.

m. Expenses of moving and transporting the Contractor's and Government's property from any principal site of the work, as defined in paragraph 1 of Article II hereof, to any other site for the work, provided that the Commission orders or approves in advance the move, the new site and the method of transportation.

n. Close-out costs incurred by the Contractor after the expiration or termination of the period of performance of the work of this contract.

o. The cost to the Contractor of compliance with health and safety, security and property management standards and regulations of the Commission.

p. Losses and expenses, including losses and expenses resulting from claims of patent infringement, not compensated for by insurance or otherwise (including settlements made with the consent of the Commission),

sustained by the Contractor in the performance of the work and certified in writing by the Commission to be just and reasonable, except losses and expenses expressly made unallowable under other provisions of this contract.

q. An allowance of Sixteen Thousand Six Hundred Dollars (\$16,600.00) for the procurement and accounting services performed by the Contractor's Central Engineering Department 50 Staff from the commencement of the term of this contract to June 30, 1952 in Contractor facilities other than the Contractor's Hicksville, Long Island Plant.

r. The direct cost to the Contractor of work performed under this contract with the approval of the Commission at the Bayside, Long Island, plant of the Contractor, plus indirect costs allocable to such work to the extent such indirect costs are agreed upon by the Commission and the Contractor.

s. Items of cost which are not expressly excluded by other provisions of this contract and which are specifically certified in writing by the Commission as allowable costs hereunder.

4. Example of Unallowable Costs: The following are examples of items, the cost of which is not allowable except as indicated:

a. Advertising, except "help-wanted" advertising or other advertising to the extent such other advertising is specifically authorized by the Commission.

b. Central and branch office expenses of the Contractor, except expenses of any principal site of the work described as such in paragraph 1 of Article II, SITE OF THE WORK, and except as expressly provided for elsewhere in this contract.

c. Commissions and bonuses (under whatever name) in connection with obtaining or negotiating for a Government contract.

d. Unless otherwise authorized by the Commission, costs of the character described in subdivision g. under examples of allowable costs, which are not in accordance with Appendix "A", or modifications thereto.

e. Provisions for contingent reserves.

f. Contributions, donations, dividend payments, interest on borrowings (however represented), bond discounts and expense and financial charges.

g. Entertainment expenses, except as provided in Appendix "A", or modifications thereto.

h. Fines and penalties, unless incurred as a result of action by the Contractor in accordance with the express direction of the Commission or in accordance with the provisions of Article XX, STATE AND LOCAL TAXES AND FEES.

i. Capital additions and structural improvements to Contractor-owned or Contractor-leased facilities, except where such additions or improvements have been specifically approved by the Commission as being an aid to the performance of this contract, and only to the extent specifically agreed to by the Commission.

j. Losses from sales and exchanges of the Contractor's capital assets and losses on other contracts.

k. Membership in trade, business and professional organizations, except as specifically authorized by the Commission.

l. Subscriptions to periodicals or other publications, technical or otherwise, except as specifically authorized by the Commission.

m. Pensions, retirement, group health, accident and life insurance plans, except to the extent authorized under Appendix "A", or modifications thereto.

n. Storage of contract records after completion of contract operations, irrespective of contractual or statutory requirements regarding preservation of records, except as specifically allowed pursuant to paragraph 3 of Article VIII, hereof.

o. Taxes, fees and charges, levied by public agencies, which are imposed upon or arise by reason of or are measured by the Contractor's fixed fee.

p. Government-furnished property, except to the extent that cash payment therefor is required pursuant to procedures of the Commission applicable to transfers of such property to the Contractor from others (including other agencies of the Government) and the cost of insurance against loss, destruction or damage to Government-owned property.

q. Wages, salaries, or other compensation of the Contractor's corporate officers, except to the extent such wages, salaries or other compensation (including travel and subsistence) is paid (without duplication) pursuant to subparagraphs g. and k. of paragraph 2 of this Article.

r. Other items made unallowable by the provisions of this contract.

5. Payment:

a. Payment of the Fixed Fee. Payment of ninety (90%) per cent of the fixed fee set forth in subparagraph a. of paragraph 1 of this Article shall be made by the Government monthly in amounts based on the percentage of the completion of the work hereunder, as determined from estimates submitted to and approved by the Commission.

b. The Government will make reimbursement payments for the allowable costs set forth in paragraph 3 of this Article monthly, or in the discretion of the Commission, at more frequent intervals.

c. Upon (i) the expiration of the period of performance of the work of the contract, (ii) completion of the work required by paragraph 3 of Article III, TERM, TERMINATION AND EXPIRATION, and (iii) the furnishing by the Contractor of a release in such form and with such exception as may be approved by the Commission of all claims against the Government under or arising out of this contract, accompanied by any accounting for Government-owned property required by Article V, GOVERNMENT PROPERTY, the Government shall promptly pay to the Contractor the unpaid balance of the consideration set forth in paragraph 1 of this Article (including any portion of the fixed fee withheld or not yet paid pursuant to subparagraph a. above) less deductions due under the terms of this contract and any sum required to settle any unsettled claim which the Government may have against the Contractor.

d. Claims for Payment. Claims for payment shall be accompanied by such supporting documents and justifications as the Commission shall prescribe.

e. Discounts. The Contractor shall take and afford the Government advantage of all available cash and trade discounts, rebates, allowances, credits, salvage, commissions and bonifications.

f. Revenues. Any revenues, apart from the fixed fee, accruing to the Contractor in connection with the work under this contract, shall be applied in reduction of allowable costs under this contract.

g. Direct Payment of Charges - Deductions. The Government reserves the right, upon ten (10) days written notice from the Commission to the Contractor, to pay directly to the persons concerned any charges for services, materials or freight which otherwise would be allowable under this contract. Any payment so made shall discharge the Government of all liability to the Contractor therefor.

6. Limit of Government Liability.

a. Estimates. The initially estimated cost of the work under this contract, including the fixed fee set forth in subparagraph a₂ of paragraph 1 of this Article, is Three Million Two Hundred Fifty-Three Thousand Eight Hundred Ninety-Seven Dollars (\$3,253,897.00). It is understood that neither the Government nor the Contractor guarantees the correctness of the initial estimate of cost or any revision thereof, and that there shall be no adjustment in the amount of the Contractor's fixed fee by reason of any errors in the computation of estimated costs or revised estimated costs, or any difference between any estimated cost or revisions thereof and the actual cost of the work.

b. Obligations. The Commission has initially obligated for this contract, from obligational authority available to it, the sum of Three Million Two Hundred Fifty-Three Thousand Eight Hundred Ninety-Seven Dollars (\$3,253,897.00). Said amount may be increased by the Commission in its discretion, from time to time. The Contractor promptly shall notify the Commission in writing whenever it believes that the then Commission obligation for this contract is insufficient, and its notice shall contain its estimate of the amount of such insufficiency. When and if the total of amounts paid and payable to the Contractor under this contract (including the fixed fee and the actual or estimated amounts unpaid by the Contractor on all subcontracts and all other commitments on the assumption that they will be completed), shall equal the then Commission obligation for this contract, the Contractor shall not be expected to incur further expenses nor to perform further hereunder unless the Commission agrees in writing to increase said obligation for this contract in an amount sufficient to cover additional work hereunder. Notwithstanding any other provisions of this contract the liability of the Government under this contract shall be limited to the Commission obligation specified in this subparagraph, as same may be increased by the Commission by notice to the Contractor in writing.

ARTICLE V - GOVERNMENT PROPERTY

1. Except as otherwise specifically agreed upon in writing by the Contractor and the Commission and except as otherwise specifically provided herein

a. title to all property specially purchased by the Contractor for this contract, for which the Contractor is entitled to direct reimbursement under the provisions of paragraphs 2 and 3 of Article IV, CONSIDERATION, shall pass directly from the vendor to the Government; and

b. title to all property utilized in the work of this contract, provided by the Contractor from Contractor-owned stores or manufactured by the Contractor in the ordinary course of its commercial business, for which the Contractor is entitled to reimbursement under the provisions of paragraphs 2 and 3 of Article IV, CONSIDERATION, shall pass to the Government at the time of such utilization.

2. The Government reserves the right to furnish any property or services required for or useful in the performance of the work under this contract. Title to all property so furnished shall remain in the Government.

3. The Government shall retain title to all products, by-products, wastage, salvage, work-in-process, residues and scrap resulting from property to which the Government has or had title pursuant to paragraphs 1 and 2 above.

4. All items of Government-owned property referred to above are hereafter collectively referred to in this Article as "Government property". To the extent practicable, the Contractor shall cause all non-expendable items of Government property to be suitably marked with an identifying mark or symbol indicating that the items are the property of the Government. The Contractor shall maintain, at all times and in a manner satisfactory to the Commission, records showing the disposition and use of Government property. Such records shall be subject to Commission inspection at all reasonable times. It is understood that the Commission shall at all reasonable times have access to the premises wherein any items of Government property are located.

5. The Contractor shall promptly notify the Commission of any loss or destruction of or damage to Government property (but not of any consumption of materials or supplies in the performance of its undertakings hereunder). Except as otherwise specifically provided in this contract, the Contractor shall not be liable for loss or destruction of or damage to Government property (in the possession or custody of the Contractor in connection with this contract unless such loss, destruction or damage is due to gross negligence or wilful misconduct attributable to the Contractor or its supervisory employees.

6. Items of Government property referred to above shall not be used by the Contractor except in the performance of its obligations under this contract.

7. In the event of loss or destruction of or damage to Government property, the Contractor shall take such steps to subserve the Government's interest as the Commission authorizes or approves. If the Contractor is

liable for loss or destruction of or damage to any items of Government property, it shall promptly account therefor to the satisfaction of the Commission; if the Contractor is not liable therefor, and is indemnified, reimbursed, or otherwise compensated for such loss, destruction or damage (other than by the Government under this contract), the Contractor shall promptly account to the Government for an equitable share of such indemnification, reimbursement, or other compensation; in any event, the Contractor shall do nothing to prejudice the Government's rights to recover against third parties for any such loss, destruction or damage, and, upon request of the Commission, shall furnish the Government all reasonable assistance and cooperation (including the prosecution of suit and the execution of instruments of assignment in favor of the Government) in obtaining recovery.

8. The Contractor may, with the approval of the Commission, (i) transfer or otherwise dispose of items of Government property to such parties and upon such terms and conditions as so approved, or (ii) itself acquire title to items of property at prices mutually agreed upon by the Commission and the Contractor without the necessity of execution of an amendment to this contract. The proceeds of any such transfer or disposition, and the agreed price of any such Contractor acquisition, shall be applied in reduction of any payments or reimbursement to be made by the Government to the Contractor under this contract or shall otherwise be paid in such manner as the Commission may direct.

9. The Contractor shall conform to all regulations and requirements of the Commission concerning the management, inventory control, storing and disposal of Government property. The Contractor agrees to prepare and submit to the Commission for review, within sixty (60) days after the execution of this contract, a written statement of the methods to be used and of the procedures to be followed by the Contractor in regard to management, inventory control, storing and disposal of Government property. The Contractor shall not use any method or procedure in this regard which the Commission has advised the Contractor is contrary to Commission policy or which is otherwise prohibited by this contract.

10. With respect to each item of Government property located at the Contractor's Hicksville, Long Island plant, not sold or otherwise disposed of by the Contractor or acquired by the Contractor pursuant to paragraph 8 above, the Government, within one hundred twenty days following the termination or expiration of the period of performance of this contract or any extensions thereof, if it has not exercised the option to purchase said plant as provided in Article VI, OPTION IN THE GOVERNMENT, shall abandon or remove it.

(a) In the event the Government occupies said plant pursuant to subparagraph d (ii) of paragraph 1 of Article III, TERM, TERMINATION AND EXPIRATION, the rights in the Government to abandon or remove set forth in this paragraph shall be suspended during the period of such occupancy and the one hundred twenty day period during which the Government must either abandon or remove such property shall not commence to run until the end of such occupancy.

(b) Prior to determination by the Government to abandon or remove said item the Contractor agrees, if the Government so requests, to negotiate with the Government in good faith to purchase said item at a price mutually agreed upon, it being understood, however, that the Contractor shall not be required to negotiate any price in excess of the value to the Contractor of said item.

(c) In the event the Government removes any such item of Government property which is structurally incorporated in a building on the Hicksville site, either directly or by means of its foundations, accessory piping or instrumentation, the Government shall restore the pertinent portion of the Contractor's structure to substantially the condition immediately prior to the incorporation therein of the item of property except for reasonable wear and tear and except for damage by fire, explosion or other casualty. The Government agrees that in the event the Contractor requests, in lieu of such restoration, restoration to a condition other than that set forth in the preceding sentence, to restore in accordance with the Contractor's request if the Commission determines such alternative restoration will be in the interests of the Government.

(d) There shall be no charge to the Government by the Contractor for the storage of such property (i) for any period during which the Government may exercise the option set forth in Article VI hereof, (ii) for any period during which the Government may elect, in accordance with this paragraph, to abandon or remove such property, or (iii) during the period of the close-out of this contract.

ARTICLE VI - OPTION IN THE GOVERNMENT

As part of the consideration for this contract the Government hereby is granted the option set forth in the following paragraph. This option may be exercised by the Government, by written notice to the Contractor of such exercise, at any time up to one hundred Twenty (120) days after the expiration or termination of this contract and, in the event of occupancy by the Government pursuant to subparagraph d(ii) of paragraph 2 of Article III, TERM, EXPIRATION AND TERMINATION, at any time during said occupancy.

The Government may, if it so elects, purchase, and the Contractor shall, if requested to do so by the Government, sell to the Government, (i) the land and buildings owned by the Contractor, as of the date of execution of this contract by the Contractor at Hicksville in the Township of Oyster Bay, New York, and all additions and improvements to said buildings and land subsequently acquired by the Contractor. In the event of purchase pursuant to the preceding sentence, the Government shall pay the Contractor the purchase price paid by the Contractor for said buildings and land plus the cost of acquiring said additions and improvements less, without duplication, any costs of acquiring said additions and improvements for which the Contractor is reimbursed otherwise under this contract and the depreciation of said buildings, additions and improvements. For the purposes of this paragraph, the purchase price of said land and buildings includes closing costs, and costs of necessary building and use permits and variances, to the extent that the Contractor is not reimbursed otherwise for such costs under this contract. Depreciation for the purposes of this paragraph is defined as the depreciation allowed or allowable to the Contractor for tax purposes in accordance with Internal Revenue Code Section 23(1).

ARTICLE VII - PATENTS

1. Whenever any invention or discovery is made or conceived by the Contractor or its employees in the course of any of the work under this contract, the Contractor shall furnish the Commission with complete information thereon; and the Commission shall have the sole power to determine whether or not and where a patent application shall be filed, and to determine the disposition of the title and rights under any application or patent that may result; provided, however, that the Contractor, in any event, shall retain at least a non-exclusive, irrevocable, royalty-free license under said invention,

discovery, application, or patent, such license being limited to the manufacture, use, and sale for purposes other than use in the production or utilization of fissionable material or atomic energy. Subject to the license retained by the Contractor, as provided in this Article, the judgment of the Commission on these matters shall be accepted as final; and the Contractor for itself and for its employees, agrees that the inventor or inventors will execute all documents and do all things necessary or proper to carry out the judgment of the Commission.

2. No claim for pecuniary award or compensation under the provisions of the Atomic Energy Act of 1946 shall be asserted by the Contractor or its employees with respect to any invention or discovery made or conceived in the course of any of the work under this contract.

3. Except as otherwise authorized in writing by the Commission, the Contractor will obtain patent agreements to effectuate the purposes of paragraphs 1 and 2 of this Article from all persons who perform any part of the work under this contract, except such clerical and manual labor personnel as will not have access to technical data.

4. Except as otherwise authorized in writing by the Commission, the Contractor will insert in all subcontracts provisions making this Article applicable to the subcontractor and its employees.

5. The Contractor shall grant to the Government, to practise or have practised, an irrevocable, non-exclusive license in and to any inventions (whether patented or not), secret processes, technical information and techniques of production, research and plant operation, which are directly utilized by the Contractor in the performance of the work of this contract. Such license shall apply to the manufacture, use and disposition of any article and material and to the use of any method or process. Such license shall be limited to governmental purposes related to (i) production of fissionable material, (ii) utilization of fissionable material, and (iii) utilization of atomic energy, provided, however, that the foregoing shall not limit the Government's right to sell, or cause to be sold, all products or by-products not used by or for the Government which result or remain from the use of any invention, process, information or technique to which such license applies.

ARTICLE VIII - RECORDS AND ACCOUNTS

1. The Contractor shall keep and maintain a separate and distinct set of records and books of account together with all related memoranda, supporting documents and correspondence, showing all allowable costs incurred, revenues earned, fixed fee accruals and the use and disposition of all Government-owned property coming into the possession of the Contractor under this contract. The Contractor shall accurately record its financial transactions hereunder in said records and books of account. The system of accounts employed by the Contractor shall be in accordance with generally accepted accounting principles and subject to the approval of the Commission.

2. Except to the extent, if any, otherwise approved by the Commission, all records, books of account, memoranda, supporting documents and correspondence referred to in paragraph 1 above

(i) shall be the property of the Government

(ii) shall be kept and maintained at the principal site of the work referred to in paragraph 1 of Article II, SITE OF THE WORK;

(iii) shall be subject to audit and inspection by the Commission at all reasonable times and the Contractor shall afford the Commission proper facilities for such inspection and audit; and

(iv) shall be delivered to the Government or otherwise disposed of by the Contractor either as the Commission may from time to time direct during the progress of the work or in any event as the Commission shall determine upon completion or termination of this contract and final audit of all accounts hereunder.

3. All records in the possession of the Contractor related to this contract, except those referred to in paragraph 1 above, and in Article XVI, SCIENTIFIC AND TECHNICAL DATA, shall be preserved by the Contractor without additional compensation therefor, for a period of five (5) years after final settlement of the contract or otherwise disposed of in such manner as may be agreed upon by the Government and the Contractor. The Government shall at all reasonable times have the right to examine, make copies of, and borrow said records, at no cost to the Government; provided, however, that

except as otherwise agreed upon by the Government and the Contractor all such records which bear a security classification at the time of completion or termination of the work set forth in Article I, SCOPE OF THE WORK, or at the time of the expiration of this contract, shall become the property of the Government at such time and shall thereafter be delivered to the Government or otherwise disposed of by the Contractor as the Commission shall determine and provided further that neither this paragraph nor any other provision of this contract shall be deemed to require the Contractor at its unallowable cost to store or preserve records which bear a security classification.

ARTICLE IX - PROCUREMENT AND SUBCONTRACTS

1. Approvals

a. The Contractor shall not enter into any subcontract without the written approval of the Commission of its terms and conditions. For the purposes of this paragraph, a subcontract is defined as any contractual arrangement (whether or not in the form commonly referred to as a "purchase order") with a third party for the performance of a specific part of the work to be performed under this contract, which arrangement is specifically made for such performance and the cost of which is, apart from the provisions of this paragraph, an allowable cost under this contract, except, however, arrangements covering (i) the furnishing of a basic raw material, (ii) the furnishing of a standard commercial or catalog item, or (iii) the employer-employee relation.

b. The Commission reserves the right, from time to time, by written notice from the Commission to the Contractor (i) to make any or all other commitments or classes of commitments hereunder (other than the contractual arrangements referred to in a. above) subject to, and to require their submission for, Commission approval, and (ii) to make any or all methods, practices, and procedures used or proposed to be used in effecting all arrangements and commitments hereunder subject to, and to require their submission for, Commission approval. In this regard, the Contractor agrees to prepare and submit to the Commission for review, within thirty (30) days after the execution of this contract (or any extension thereof approved in writing by the Commission), written statements of the daily procurement practices and procedures to be used and of the objectives intended to be accomplished by such practices and procedures. The Contractor will not use any procurement procedures prohibited by this contract or which the Commission has advised the Contractor are contrary to Commission policy.

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c. The Contractor shall obtain the prior written approval of the Commission before (i) purchasing motor vehicles, airplanes, typewriters, printing equipment, helium or alcohol, (ii) leasing, purchasing, or otherwise acquiring real property, (iii) procuring any item or service on a cost, cost-plus-fee or 'time and materials' basis, (iv) purchasing any item which the Commission specifies is to be obtained from indicated Government sources, and (v) purchasing any item at a cost in excess of \$2,000.00, where payment for the cost of any action specified in (i) through (v) will be claimed hereunder.

2. Writing; Terms: The Contractor shall reduce to writing, unless this provision is waived in writing by the Commission, every subcontract or other commitment in excess of One Hundred Dollars (\$100.00) made by it for the purpose of its undertakings hereunder, except contracts covering the employer-employee relation (but not excepting contracts with consultants); insert therein a provision that such commitment is assignable to the Government; insert therein all other provisions required by law or expressly required by the provisions of this contract; and make all such commitments in its own name and not bind or purport to bind the Government or the Commission thereunder.

3. Procurement from Government Sources: From time to time, by separate instrument or instruments, the Contractor may be duly authorized to act as agent for and on behalf of the Government or the Commission respecting (i) the making of procurements in and for performance under this contract from so-called Government sources such as Federal Supply Schedule commercial sources, Armed Services Petroleum Purchasing Agency, Federal Prison Industries, Inc. and Federal Supply Service, and (ii) the issuing of tax exemption certificates pertinent to such procurements. The action so authorized shall be deemed to be within the scope of the Contractor's allowable cost of work performance under this contract.

ARTICLE X - CONDUCT OF THE WORK, INSPECTION AND REPORTS

1. In performing the work called for under this contract, the Contractor

- (i) shall utilize its best efforts, know-how and ability;
- (ii) shall utilize its best efforts to have the work executed in the most workmanlike manner by qualified, careful and efficient workers in strict conformity with the best standard practices (subject to the directions of the Commission);
- (iii) shall utilize its best efforts to (provide sufficient technical, supervisory, administrative and other personnel to insure the prosecution of the work in accordance with pertinent production or other progress schedules;

(iv) shall, if in the opinion of the Commission the Contractor falls behind any pertinent production or other progress schedule, use its best efforts to take such steps to improve its progress as the Commission may direct; and

(v) shall, if in the opinion of the Commission, the Contractor's personnel or other reimbursable costs are excessive for the proper performance of this contract, make such prospective reductions thereof as the Commission may direct.

2. The work of this contract is subject to (i) the general supervision of the Commission, and (ii) the Commission authorizations, approvals and directions otherwise provided for in this contract. The Contractor shall proceed in the performance of this contract and shall place emphasis (or relative emphasis) on the various phases of the work of said contract, as and to the extent requested by the Commission from time to time. The Commission shall have the right to inspect in such manner and at such times as it deems appropriate, all activities of the Contractor in, or related to the course of the work under this contract.

3. The Contractor shall keep the Commission fully advised of its progress hereunder and of the difficulties, if any, which it experiences and shall prepare and submit to the Commission, in such quantity and form as may be directed by the Commission

(i) monthly progress reports,

(ii) interim technical reports on completion of specific phases of the work,

(iii) production schedules, financial and cost reports, construction completion reports and such other special reports as may be requested by the Commission from time to time, and

(iv) a final report summarizing its activities, findings, and conclusions.

4. The Contractor shall appoint from its staff an over-all director of the work of this contract. The selection and continued assignment to said work of this director shall be subject to the approval of the Commission.

ARTICLE XI - CONSTRUCTION, ALTERATION OR REPAIR WORK

1. The Contractor shall not perform or have performed under this contract any construction, alteration or repair work in excess of One Thousand Dollars (\$1,000.00), including painting and decorating, without the prior written approval of the Commission.

2. In the event that the Contractor, under this contract, performs or has performed, construction, alteration or repair work, including painting and decorating, which work is within the scope of the Davis-Bacon Act (Act of March 3, 1931, c.411, Sec. 1, 46 Stat. 1494, as amended; 40 U. S. Code 276 (a) et seq.), the following provisions shall apply to such work:

a. All mechanics and laborers employed or working upon the site of the work, or under the Housing Act of 1949 in the construction or development of the project, will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by the Anti-Kickback Regulations (29 C.F.R. Part 3)), the full amounts due at the time of payment computed at wage rates not less than those contained in the wage determination decision of the Secretary of Labor, to be furnished to the Contractor by the Commission and which will be attached to Appendix "A" and made a part thereof, regardless of any contractual relationship which may be alleged to exist between the Contractor or subcontractor and such laborers and mechanics; and the wage determination decision shall be posted by the Contractor at the site of the work in a prominent place where it can be easily seen by the workers.

b. The Commission may withhold or cause to be withheld from the Contractor so much of the accrued payments or advances as may be considered necessary to pay laborers and mechanics employed by the Contractor or any subcontractor on the work the full amount of wages required by the contract. In the event of failure to pay any laborer or mechanic employed or working on the site of the work or under the Housing Act of 1949 in the construction or development of the project, all or part of the wages required by the contract, the Commission may, after written notice to the Contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds until such violations have ceased.

c. (1) Payroll records will be maintained during the course of the work and preserved for a period of three (3) years thereafter for all laborers and mechanics working at the site of the work, or under the Housing Act of 1949 in the construction or development of the project. Such records will contain the name and address of each such employee, his correct classification, rate of pay, daily and weekly number of hours worked, deductions made and actual wages paid.

(c) The Contractor will submit weekly a certified copy of all payrolls to the United States Atomic Energy Commission if the agency is a party to the contract, but if the agency is not such a party, the Contractor will submit the certified payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the Commission. The certification will affirm that the payrolls are correct and complete, that the wage rates contained therein are not less than those determined by the Secretary of Labor and that the classifications set forth for each laborer or mechanic conform with the work he performed. The Contractor will make his employment records available for inspection by authorized representatives of the Commission and the Department of Labor, and will permit such representatives to interview employees during working hours on the job.

d. Apprentices will be permitted to work only under a bona fide apprenticeship program registered with a State Apprenticeship Council which is recognized by the Federal Committee (on Apprenticeship, U. S. Department of Labor;) or if no such recognized Council exists in a State, under a program registered with the Bureau of Apprenticeship, U. S. Department of Labor.

e. The Contractor will comply with the regulations of the Secretary of Labor made pursuant to the Anti-Kickback Act of June 13, 1934, 48 Stat. 948; 62 Stat. 740; 63 Stat. 108; 18 U.S.C. 874, 40 U.S.C. 276 b, c, and any amendments or modifications thereof, will cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors subject thereto, and will be responsible for the submission of affidavits required of subcontractors thereunder, except as the Secretary of may specifically provide for reasonable limitations, variations, tolerances and exemptions from the requirements thereof.

f. The Contractor will insert in each of its subcontracts the provisions set forth in stipulations (a), (b), (c), (d), (e) and (g) hereof, and such other stipulations as the Commission may by appropriate instructions require.

g. A Breach of stipulations (a) through (f) may be grounds for termination of the contract.

ARTICLE XII - EIGHT-HOUR LAW

No laborer or mechanic doing any part of the work contemplated by this contract, in the employ of the Contractor or any subcontractor contracting for any part of said work contemplated, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this paragraph of the contract. The wages of every laborer or mechanic employed by the Contractor or any subcontractor engaged in the performance of this contract shall be computed on a basic day rate of eight hours per day and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For

each violation of the requirements of this paragraph of the contract a penalty of five dollars shall be imposed upon the Contractor for each laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this paragraph of the contract, and all penalties thus imposed shall be withheld for the use and benefit of the Government. Provided, That this stipulation shall be subject in all respects to the exceptions and provisions of the Eight-Hour Laws as set forth in U. S. Code, Title 40, Sections 321, 324, 325, 325a, and 326, which relate to hours of labor and compensation for overtime.

ARTICLE XIII - DISCLOSURE OF INFORMATION

1. It is understood that unauthorized disclosure of any, or failure to safeguard all, material marked as "Security Information" that may come to the Contractor, or any person under its control, in connection with the work under this contract may subject the Contractor, its agents, and employees to criminal liability under the laws of the United States. See the Atomic Energy Act of 1946, 60 Stat. 755, as amended, Title 42, United States Code, Sec. 1801, et. seq. See also Title 18, United States Code, Secs. 791 to 798, both inclusive, and Executive Order No. 10,104, February 1, 1950, 15 F. R. 597.

2. The Contractor agrees to conform to all security regulations and requirements of the Commission. Except as the Commission may authorize, in accordance with the Atomic Energy Act of 1946, as amended, the Contractor shall not permit any individual to have access to restricted data until the designated investigating agency shall have made an investigation and report to the Commission on the character, associations, and loyalty of such individual, and the Commission shall have determined that permitting such person to have access to restricted data will not endanger the common defense and security. As used in this paragraph the term "designated investigating agency" means the United States Civil Service Commission or the Federal Bureau of Investigation, or both, as determined pursuant to the provisions of the Atomic Energy Act of 1946, as amended by the Act of April 5, 1952, Public Law 298, 82nd Congress, 66 Stat. 43. The term "restricted data" as used in this paragraph means all data concerning the manufacture or utilization of atomic weapons, the production of fissionable material, or the use of fissionable material in the production of power, but shall not include any data which the Commission from time to time determines may be published without adversely affecting the common defense and security.

3. Except as otherwise authorized in writing by the Commission, the Contractor shall insert in all agreements, made pursuant to the provisions of this contract which may involve security information, the provisions of paragraphs 1 and 2 of this Article.

ARTICLE XIV - DISPUTES

Except as otherwise specifically provided in this contract, all disputes between the parties which may arise under, or in connection with, any part of this contract, prior to final payment, and which are not disposed of by mutual agreement, shall be decided by a representative of the Commission, duly authorized to supervise and administer performance of the undertakings hereunder, who shall reduce his decision to writing and mail a copy of said decision to the Contractor; said decision shall be final and conclusive on the parties hereto, subject to the right of the Contractor to appeal, as provided for in the sentence next following. Within thirty days from the mailing of said decision, the Contractor may appeal, in writing, to the Commission, whose written decision thereon, or that of its duly authorized representative, representatives, or Board (but not including the Commission representative mentioned in the first sentence of this Article), duly authorized to determine such an appeal, shall be final and conclusive on the parties hereto. If any such dispute arises during performance by the Contractor of its undertakings hereunder, the Contractor shall diligently proceed with the performance of its undertakings under this contract, pending the decision of such dispute.

ARTICLE XV - SECURITY ACTION

Upon notice from the Commission that such action is considered to be in the interests of the common defense and security, the Contractor shall (i) deny any employee or other person access to the site of any contract undertakings or to "restricted data" within the meaning of the Atomic Energy Act of 1946, or (ii) dismiss from its undertakings under this contract any employee or other person.

ARTICLE XVI - SCIENTIFIC AND TECHNICAL DATA

All compilations of scientific and technical data (including, but not limited to, reports, notes, drawings, designs, specifications and memoranda) furnished or prepared by the Contractor pursuant to, or developed in connection with, the Contractor's undertakings under this contract, shall be property of the Government and the Government shall have the right to use such material in any manner and for any purpose without any claim on the part of the Contractor for additional compensation therefor. All provisions of paragraphs 4, 5, 6, 7, 8 and 9 of Article V relating to Government property are applicable to such material.

ARTICLE XVII - SOURCE AND FISSIONABLE MATERIALS

The Contractor agrees to conform to all regulations and requirements of the Commission with respect to accounting for source and fissionable materials (defined in the Atomic Energy Act of 1946).

ARTICLE XVIII - GUARD AND FIRE FIGHTING FORCES

In connection with its work under this contract, the Contractor shall provide such guard or fire fighting forces, with such uniforms and equipment, as the Commission may from time to time require or approve. The cost thereof shall be deemed to be allowable costs under paragraph 3 of Article IV hereof.

ARTICLE XIX - BONDS AND INSURANCE

1. Except as otherwise specifically provided, the Contractor shall exert all reasonable efforts to procure and maintain such bonds and insurance policies as are (i) required by law, or (ii) required by the Commission.

2. Except as otherwise directed by the Commission, in every instance where the premium on a bond or insurance policy is an allowable cost under the contract, the bond or insurance policy shall contain endorsements or other recitals (i) excluding, by appropriate language, any claim on the part of the insurer or obligor to be subrogated, on payment of a loss or otherwise, to any claim against the United States, and (ii) providing for at least thirty (30) days prior written notice by registered mail to the United States Atomic Energy Commission of bond or policy cancellation, as the case may be.

ARTICLE XX - STATE AND LOCAL TAXES AND FEES

The Contractor shall notify the Commission of any tax, fee, assessment, duty or other charge asserted in behalf of any State, county, municipality, or any officer, commission, body or subdivision thereof, (i) in connection with property which is or will be Government-owned property covered by Articles V, VIII, and XVI hereof, (ii) in connection with any transaction between the Contractor and the Government, or (iii) in connection with the payments by the Government for the Contractor's performance under this contract, and shall refrain from paying same unless authorized to do so by the Commission. To the extent requested by the Commission, the Contractor (i) shall take steps to cause any such taxes, fees, assessments, duties or other charges to be paid under protest, and (ii) shall cause to be assigned to the Government or its designees, any and all rights to the abatement, refund or other recoupment of such charges paid under protest.

ARTICLE XXI - NON-DISCRIMINATION IN EMPLOYMENT

In connection with the performance of this contract, the Contractor agrees not to discriminate against any employee or applicant for employment because of race, creed, color, or national origin; and further agrees to insert the foregoing provision in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

ARTICLE XXII - TECHNICAL AND PROFESSIONAL ASSISTANCE

When, in the judgment of the Contractor, the complexity and nature of the contract undertakings are such as to require supplemental expert technical or professional assistance, services or advice in connection with special phases of a technical character, the Contractor may, with the written approval of the Commission, engage or otherwise obtain such supplemental services. Compensation and reimbursement to any consultant engaged pursuant to this article shall be governed by the provisions of Appendix "A" attached hereto except as may otherwise be specifically stated in the contract with such consultant approved by the Commission.

ARTICLE XXIII - ASSIGNMENT

Neither this contract nor any interest therein or claim thereunder shall be assigned or transferred by the Contractor except with the written approval of the Commission.

ARTICLE XXIV - LABOR DISPUTES

Whenever an actual or potential labor dispute interferes or threatens interference with the work of this contract, the Contractor shall immediately inform the Commission of such dispute and of the relevant facts.

ARTICLE XXV - COVENANT AGAINST CONTINGENT FEES

1. The Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty the Government shall have the right to annul this contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

2. Unless otherwise authorized by the Commission in writing the Contractor shall cause provisions similar to paragraph 1 above to be inserted in all subcontracts and purchase orders entered into under this contract.

ARTICLE XXVI - CONVICT LABOR

In connection with the performance of this contract, the Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor. This provision shall not be construed to prevent the Contractor or any

subcontractor from obtaining any of the supplies or any component parts or ingredients to be furnished under this contract or any of the materials or supplies to be used in connection with the performance of this contract, directly or indirectly, from any Federal, state or territorial prison or prison industry, provided, that such articles, materials or supplies are not produced pursuant to any contract or other arrangements under which prison labor is hired or employed or used by any private person, firm or corporation.

ARTICLE XXVII - WALSH-HEALEY ACT

To the extent only that the Walsh-Healey Public Contracts Acts, as amended (41 United States Code 35-45) is applicable to this contract, the following provision shall apply:

There are hereby incorporated by reference, the representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XXVIII - DOMESTIC ARTICLES

1. Unless the Commission shall determine it to be inconsistent with the public interest, or the cost to be unreasonable, the Contractor, its subcontractors, and all materialmen or suppliers shall use, in the performance of the work, only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States, and only such manufactured articles, materials, or supplies as have been manufactured in the United States substantially all from articles, materials, or supplies, mined, produced, or manufactured, as the case may be, in the United States. The provisions of this paragraph shall not apply if the articles, materials, or supplies of the class or kind to be used, or the articles, materials, or supplies from which they are manufactured are not mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of satisfactory quality.

2. Unless otherwise authorized by the Commission in writing, the Contractor shall cause provisions similar to paragraph 1 above to be inserted in all subcontracts and purchase orders entered into under this contract.

ARTICLE XXIX - OFFICIALS NOT TO BENEFIT

No member of or delegate to Congress or resident commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE XXX - RENEGOTIATION

1. This contract shall be deemed to contain all the provisions required by Section 104 of the Renegotiation Act of 1951 (Public Law 9, 82nd Congress).

2. The Contractor agrees to insert the provisions of this paragraph, including this subparagraph 2, in all subcontracts specified in Section 103 (g) of the Renegotiation Act of 1951; provided, that the Contractor shall not be required to insert the provisions of this paragraph in any subcontract excepted by or pursuant to Section 106 of the Renegotiation Act of 1951.

ARTICLE XXXI - SAFETY AND ACCIDENT PREVENTION

The Contractor shall initiate and take all reasonable steps and precautions to protect health and minimize danger from all hazards to life and property, shall make all reports and permit all inspections as required by the Commission, and shall conform to all health and safety regulations and requirements of the Commission.

ARTICLE XXXII - COMPLIANCE WITH LAWS

Except as otherwise directed by the Commission and subject to the provisions of Article XX, STATE AND LOCAL TAXES AND FEES, the Contractor shall procure all necessary permits and licenses; obey and abide by all applicable laws, regulations, ordinances, and other rules of the United States of America, of the State, territory, or political subdivision thereof, wherever the work is done, or of any other duly constituted public authority.

ARTICLE XXXIII - APPENDIX "A"

The Contractor shall abide by the provisions of Appendix "A" of this contract, as the same may be modified from time to time; provided, however, that in the event of conflict between the provisions of said Appendix "A" and the other provisions of this contract, the latter shall prevail.

ARTICLE XXXIX - EXAMINATION OF RECORDS

1. The Contractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of three years after final payment under this contract, have access to and the right to examine any directly pertinent books, documents, papers and records of the Contractor involving transactions related to this contract.

2. The Contractor further agrees to include in all its subcontracts hereunder a provision to the effect that the subcontractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of three years after final payment under such subcontract, have access to and the right to examine any directly pertinent books, documents, papers, and records of such subcontractor involving transactions related to the subcontract. The term subcontract as used herein does not include (i) purchase orders not exceeding One Thousand Dollars (\$1,000.00), or (ii) contracts or purchase orders for public utility services at rates established for uniform applicability to the general public.

3. Nothing in this contract shall be deemed to preclude an audit by the General Accounting Office of any transaction under this contract.

ARTICLE XXXV - CLAIMS AND LITIGATIONS

1. The Contractor shall give the Commission immediate notice of any claim against the Contractor or suit or action filed or commenced against the Contractor, arising out of or connected with the performance of this contract, irrespective of whether or not the cost or expense of such claim, suit or action, is to be borne wholly or in part by the Government hereunder and irrespective of whether the Contractor is insured against any risk which may be involved. The Contractor shall furnish immediately to the Commission copies of all pertinent papers received by the Contractor.

2. Insofar as the following shall not conflict with any policy or contract of insurance, and to the extent requested by the Commission, the Contractor, with respect to any claim, suit or action, the cost and expense of which is or would be an allowable cost as defined in paragraph 2 of Article IV, or the proceeds of which is or would be revenues covered by paragraph 5 f. of Article IV, (i) shall promptly do any and all things to effect an assignment and subrogation in favor of the Government of all the Contractor's rights and claims, except as against the Government, arising from or growing out of any such claim, suit or action, or (ii) shall promptly authorize representatives of the Government to settle, defend, or otherwise handle any such claim,

suit or action and to represent the Contractor in, and take charge of, any litigation resulting therefrom, or (iii) shall diligently handle any such claim, suit or action or defend or initiate any litigation in connection with any such claim, suit or action and in so doing, shall consult with the Commission as to the steps to be taken and shall otherwise endeavor in good faith to subserve the interests of the Government.

3. Subject to the provisions of paragraph 2 above, the Contractor shall diligently handle any claim whatsoever arising out of the performance of this contract and shall promptly defend or initiate any litigation in connection with any such claim, consulting with the Commission as to the steps to be taken.

4. With respect to any claim, matter or litigation arising out of the performance of this contract, the handling of which is undertaken by an insurance carrier or by a representative or representatives of the Government, the Contractor shall furnish all reasonable assistance and cooperation that may be requested by the Commission.

5. "Litigation", for the purposes of this Article, is defined to include proceedings before administrative agencies.

ARTICLE XXXVI - LETTER CONTRACT NO. AT(30-1)-1293

Letter Contract No. AT(30-1)-1293, entered into as of December 10, 1951, hereby is merged with and superseded by this contract.

ARTICLE XXXVII - CONTRACT APPROVAL

This contract is subject to the approval of the Director of the Division of Production of the United States Atomic Energy Commission and shall not be binding unless so approved.

ARTICLE XXXVIII - DEFINITIONS

1. As used in this contract, the terms "United States Atomic Energy Commission", "Atomic Energy Commission", and "Commission" shall mean the United States Atomic Energy Commission or its duly authorized representative or representatives.

2. All references in this contract to Commission or Government approvals, authorizations, directions or notices contemplate and require written action.

IN WITNESS WHEREOF, the parties hereto have executed this contract as of the day and year first above written.

UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

H. H. Fry

H. H. FRY
MANAGER
NEW YORK OPERATIONS OFFICE

Witnesses:

W. E. Kingston

P. O. Box 59 - Bayside, N. Y.
(Address)

W. F. Rieger

1740 Broadway, N.Y.C.
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.

By: *J. B. Merrill*

Title: *Vice Pres.*

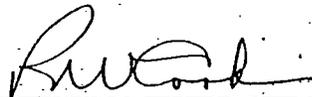
I, *J. S. DeArroyo*, certify that I am the *SECRETARY* of the corporation named as Contractor herein; that *J. B. MERRILL* who signed this contract on behalf of the Contractor was then *VICE PRES.* of said corporation; that said contract was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal of said corporation.

J. S. DeArroyo
Secretary

(Corporate Seal)

The above contract, AT(30-1)-1293, with Sylvania Electric Products, Inc., is hereby approved.



Director, Division of Production
United States Atomic Energy Commission

Date: 3/10/, 1953

APPENDIX "A"

Contract No. AT(30-1)-1293

with

Sylvania Electric Products, Inc.

I N D E X

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I. JOB CLASSIFICATIONS AND SALARY RANGES

PLAN "A" (Normally Exempt)

<u>Job Title</u>	<u>Grade</u>	<u>Rate Range</u>
Division Traffic Manager	6K	\$464 - \$724
Area Safety Engineer	6K	464 - 724
Supervisor of Warehousing	6K	464 - 724
Division Purchasing Agent	9J	602 - 947
Supervisor - Expediting	5K	422 - 664
Priorities Coordinator	4K	384 - 602
Chief Buyer	6K	464 - 724
Buyer	5K	422 - 664
Division Industrial Engineer	9J	602 - 947
Division Supervisor of Maintenance	8K	552 - 868
Division Manager of Quality Control	9J	602 - 947
Quality Control Spec.	7K	505 - 787
Division and Staff Counsel	13J	922 - 1492
Office Manager	7K	505 - 787
Supervisor of an Office Department	4K	384 - 602
Supervisor of an Office Department Sec.	2K	321 - 505
Manager of Accounting	12J	812 - 1338
Supervisor of Equipment Design	9J	602 - 947
Equipment Design Spec.	7K	505 - 787
Equipment Designer	4K	384 - 602
Mechanical Equipment Spec.	8K	552 - 868
Tool Room Foreman	6K	464 - 724
Supervisor of Prod. Scheduling & Control	8K	552 - 868
Supervisor of Material Control	6K	464 - 724
Tool Coordinator	6K	464 - 724
Administrative Engineer	10J	664 - 1091
Plant Manager - Class A Plant	13J	922 - 1492
Plant Manager - Class B Plant	12J	812 - 1338
Plant Manager - Class C Plant	10J	664 - 1091
Manufacturing Superintendent	9J	602 - 947
General Foreman	8K	552 - 868
Technical Foreman	6K	464 - 724
Foreman, Class I	6K	464 - 724
Foreman, Class II	3K	345 - 546
Supervisor of Personnel	7K	505 - 787
Personnel Assistant	4K	384 - 602
Safety Engineer	4K	384 - 602
Supervisor of Product Engineering	9J	602 - 947
Supervisor of Quality Control	7K	505 - 787
Supervisor of Industrial Engineers	7K	505 - 787
Industrial Engineer, Sr.	6K	464 - 724
Industrial Engineer, Jr.	3K	345 - 546
Standards Applicator	3K	345 - 546
Supervision of Production Control	7K	505 - 787
Supervisor of Plant A/C	7K	505 - 787

I. JOB CLASSIFICATIONS AND SALARY RANGES (continued)

PLAN "A" (Normally Exempt) - (continued)

<u>Job Title</u>	<u>Grade</u>	<u>Rate Range</u>
Cost Accountant	3K	\$345 - \$546
Purchasing Agent	5K	422 - 664
Supervisor of Maintenance	6K	464 - 724
Engineering Manager A	12J	812 - 1338
Engineering Manager B	10J	664 - 1091
Engineering Specialist	10J	664 - 1091
Section Head	9J	602 - 947
Engineer in Charge	7K	505 - 787
Senior Engineer	6K	464 - 724
Junior Engineer	3K	345 - 546
Accountant Special	9J	602 - 947
Supervisor of A/C Department	7K	505 - 787
Supervisor of A/C Department Sec.	5K	422 - 664
Accountant, Senior	4K	384 - 602
Industrial Relations Assistant	3K	345 - 546
Industrial Relations Specialist	9J	602 - 947

PLAN "B" (Non-Exempt)

Cost Accountant, Jr.	60R	\$321 - \$472
Time Study and/or Methods Clerk	59R	302 - 442
Time Study and/or Methods Clerk, Jr.	56R	247 - 360
Materials Requirements Analyst	62R	365 - 540
Production Control Clerk	59R	302 - 442
Production Control Clerk, Jr.	56R	247 - 360
Stock Clerk	59R	302 - 442
Stock Clerk, Jr.	56R	247 - 360
Drafting Section Supervisor	64R	427 - 626
Designer - Draftsman	63R	397 - 579
Draftsman	60R	321 - 473
Draftsman, Jr.	57R	265 - 391
Tracer	54R	224 - 309
Internal Expediter	59R	302 - 442
External Expediter	60R	321 - 473
Master Craftsman	64R	427 - 626
Production or Maintenance Supervisor I	62R	365 - 540
Production or Maintenance Supervisor II	60R	321 - 473
Safety Inspector	60R	321 - 473
Employment Interviewer or Counsellor	59R	302 - 442
Employment Interviewer or Counsellor, Jr.	56R	247 - 360
Nurse	57R	265 - 391
Nurse, Sr.	59R	302 - 442
Buyer, Jr.	59R	302 - 442
Production Scheduling Clerk	62R	365 - 540
Technician, Sr.	62R	365 - 540
Technician	59R	302 - 442
Technician, Jr.	56R	247 - 360
Experimental Glass Blower	62R	365 - 540

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Revision of all salary ranges Effective 9/22/54

I. JOB CLASSIFICATIONS AND SALARY RANGES (continued)

PLAN "B" (Non-Exempt) - (continued)

	<u>Grade</u>	<u>Rate Range</u>
Billing Checker	54R	\$224 - \$309
Specifications	62R	365 - 540
Requisition Clerk	57R	265 - 391
Office Boy or Girl	51R	207 - 247
Supervisor of an Office Dept., Sec. (Cl.I)	60R	321 - 473
Supervisor of an Office Dept., Sec. (Cl.II)	57R	265 - 391
Functional Clerk	59R	302 - 442
Clerk, Sr.	55R	236 - 333
Routine Clerk	52R	224 - 265
Mail and File Clerk	52R	224 - 265
Office and Stockroom Clerk	54R	224 - 309
Secretary Exec.	59R	302 - 442
Secretary, Sr.	57R	265 - 391
Secretary-Steno	55R	236 - 333
Steno	54R	224 - 309
Transcriber	53R	224 - 284
Copy Typist	52R	224 - 265
Order Typist	54R	224 - 309
Duplicating Machine Operator	53R	224 - 284
Photostat and Blue Print Operator	54R	224 - 309
Multilith Operator "A"	55R	236 - 333
Multilith Operator "B"	54R	224 - 309
Multigraph Operator	54R	224 - 309
Billing Machine Operator	54R	224 - 309
Bookkeeping Machine Operator, Sr.	55R	236 - 333
Bookkeeping Machine Operator, Jr.	54R	224 - 309
Tabulating Procedure Clerk	59R	302 - 442
Tabulating Machine Operator "A"	56R	247 - 360
Tabulating Machine Operator "B"	55R	236 - 333
Key Punch Operator	54R	224 - 309
A/C Clerk, Sr.	56R	247 - 360
A/C Clerk, Jr.	54R	224 - 309
Bookkeeper, Sr.	56R	247 - 360
Bookkeeper, Jr.	54R	224 - 309
Payroll Clerk, Sr.	56R	247 - 360
Payroll Clerk, Jr.	54R	224 - 309
Cost Clerk, Sr.	56R	247 - 360
Cost Clerk, Jr.	54R	224 - 309
Invoice Clerk	55R	236 - 333
Telephone Operator & Receptionist I	56R	247 - 360
Telephone Operator & Receptionist II	54R	224 - 309
Accountant, Trainee	60R	321 - 473
Accountant, Jr.	60R	321 - 473
Traffic Clerk	62R	365 - 540
Warehouse Supervisor	58R	284 - 416
Warehouseman	54R	224 - 309
Industrial Relation Analyst or Asst., Jr.	58R	284 - 416
Routing Clerk	55R	236 - 333
Billing Clerk	56R	247 - 360
Inventory Clerk	55R	236 - 333
Addressograph Operator	54R	224 - 309

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Revision of all salary ranges Effective 9/22/54

I. JOB CLASSIFICATIONS AND SALARY RANGES (continued)

HOURLY

<u>Job Title</u>	<u>Grade</u>	<u>Rate Range</u>
Janitor	5	\$1.33 - \$1.54
Handyman	5	1.33 - 1.54
Lab Helper - Metallographic	4	1.33 - 1.51
Lab Helper Special Products	6	1.36 - 1.57
Machinist - Special Products	13	1.69 - 1.99
Group Leader - Maintenance	18	2.09 - 2.45
Mechanic "A"	17	2.00 - 2.35
Mechanic "B"	16	1.91 - 2.24
Development Machinist	20	2.28 - 2.67
Machinist "A"	18	2.09 - 2.45
Electrician	18	2.09 - 2.45
Gas Cylinder Supply	10	1.55 - 1.79
Pipefitter "A"	16	1.91 - 2.24
Tool and Stock Clerk	10	1.55 - 1.79
Tool and Die Maker "A"	20	2.28 - 2.67
Welder	18	2.09 - 2.45
Sheet Metal Worker	14	1.76 - 2.08
Tool Crib Attendent	9	1.50 - 1.72
Carpenter	16	1.91 - 2.24
Pipefitter	16	1.91 - 2.24
Lathe Operator	15	1.83 - 2.16
Milling Machine Operator	15	1.83 - 2.16
Contour Saw Operator - Learner	7	1.42 - 1.62
Tool & Die Maker "B"	18	2.09 - 2.45
Tool & Die Maker "C"	16	1.91 - 2.24
Machinist "B"	16	1.91 - 2.24
Machinist "C"	12	1.62 - 1.91
Millwright "A"	15	1.83 - 2.16
Millwright "B"	12	1.62 - 1.91
Groupleader - Maintenance	20	2.28 - 2.67
Shipping and Receiving Clerk	9	1.50 - 1.72
Stock Clerk	10	1.55 - 1.79
Caretaker	10	1.55 - 1.79
Groupleader - Equipment Assm.	19	2.18 - 2.56
Assembly Machinist "A"	18	2.09 - 2.45
Assembly Machinist "B"	16	1.91 - 2.24
Assembly Machinist "C"	11	1.59 - 1.85
Maintenance Machinist "A"	18	2.09 - 2.45
Maintenance Machinist "B"	16	1.91 - 2.24
Maintenance Machinist "C"	11	1.59 - 1.85
Guard Sergeant	13	1.69 - 1.99
Armed Courier	12	1.62 - 1.91
Armed Guard	11	1.59 - 1.85
Groupleader - Machine Shop	20	2.28 - 2.67
Inspector	20	2.28 - 2.67

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Revision of all salary ranges Effective 9/22/54

I. JOB CLASSIFICATIONS AND SALARY RANGES - HOURLY (continued)

<u>Job Title</u>	<u>Grade</u>	<u>Rate Range</u>
Pump & Boiler Maintenance	16	\$1.91 - \$2.24
Trades Helper	7	1.42 - 1.62
Laboratory Assistant - X-Ray	8	1.46 - 1.67
Engineering Assistant - Metallographic	12	1.62 - 1.91
Characterizing Powder Metallurgy Specimens	9	1.50 - 1.72
Powder Preparation, Pressing & Sintering	13	1.69 - 1.99
Engineering Assistant - Metal Processing	16	1.91 - 2.24

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1293-RA #11

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Revision of all salary ranges Effective 9/22/54

II. EMPLOY REI IONS POLICIES

A. Moving Expenses

Whenever a new key or technical employee is hired for a position in an exempt salary classification or a regular key or technical employee is transferred from a locality which is more than a reasonable commuting distance from the Sylvania plant or office in which he is to work, the Company may pay the cost of moving the employee, his immediate family, and his household goods and personal effects to (or near) the new location.

In general, the company will not pay the moving and transportation expenses of an employee living within a thirty-mile radius of the plant or office location.

Immediate family shall include a man's wife, children and any relative living with him and dependent upon him for support.

After arrival at the new location a daily allowance may be paid for a period not to exceed 30 days. This may be extended only if the employee has been unsuccessful in a sincere effort to find a place to live in the new location. Any such extension will require prior AEC approval.

Transportation expense will be reimbursed in accordance with the travel policy except that the subsistence allowance during travel will be as follows:

Employee	-	\$6.
Employee and wife	-	12.
Employee, wife and child	-	16.
Each additional person	-	4.

After arrival, the daily allowance, which includes subsistence and lodging will be as follows:

Employee	-	\$12.
Employee and wife	-	18.
Employee, wife and child	-	24.
Each additional person	-	4.

Actual expense of moving household goods and personal effects will include, packing, crating, insurance on goods in transit, unpacking, temporary storage charges not to exceed 30 days, disconnecting and connecting equipment such as stoves, ranges, etc.

B. Educational Benefits

The Company makes available to employees the following educational benefits. Payments by the company to or for the benefit of an employee are considered wages, and all such educational benefits are subject to both withholding and social security tax deductions, except when the Company requires an employee as part of his work to take a course or become a member of a society or club. In all cases

listed above where the employee receives financial assistance, the employee pays the whole cost, submits the receipted bill and is reimbursed for 50% of the cost less withholding and social security tax deductions.

1. Magazines

If the employee wishes to subscribe personally to a magazine which will be helpful to him on the job, the Company will pay one-half the subscription price and the magazine may be sent directly to the employee's home or to his company address. Only technical trade or similar magazines that apply to a specific problem will be approved. Such payments are subject to tax deductions.

2. Engineering and Management Societies

Where an employee is the official representative of the Company or attends meetings as part of his work, the Company will pay the whole cost of membership. Such payments are not subject to tax deductions. If the employee wishes a personal membership, and such membership will be helpful to the employee on his job, the Company will pay one-half of the membership fee, less tax deductions.

3. Outside Educational Courses

When an employee is assigned to a course as part of his work, the Company will pay the whole cost of the course.

In cases where an employee voluntarily elects to take an outside course of study, he will receive help from the Company towards meeting his tuition costs provided the course meets the following requirements:

- a. The course will improve the performance of the employee in his present job.
- b. He must obtain approval before enrolling in the course.
- c. He must complete the course satisfactorily and pay the tuition bill.

On presentation of the receipted tuition bill and a certificate of satisfactory completion of such a course, the Company will reimburse the employee for 50% of the tuition fee, less tax deductions.

C. Employee Benefit Program

The Company provides at no cost to the employee a program covering Group Life Insurance, Pensioner's Life Insurance, Accidental Death and Dismemberment Insurance, Non-occupational Disability Benefits, Hospital Benefits, and Surgical Benefits. A booklet describing these programs is on file in the Organization and Personnel Division.

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1293 - RA #4

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Revision of Appendix "A". Effective 9/11/52

D. Reporting Time

1. An hourly employee reporting for work on any regular workday, not having been previously notified not to report, will receive full pay for his scheduled hours for the day even though idle or sent home early because of a delay, shortage or other reason beyond his control. This payment will not be made in the case of general or departmental shutdowns caused by power interruptions, fire, flood, or other conditions beyond the control of the Company.

2. No regular workday will be scheduled for less than four (4) hours.

3. Hourly employees who are called in for emergency work after they have left for the day, or during their scheduled day off, will be paid not less than four (4) hours work.

4. When an hourly employee works less than his regular scheduled hours for the day due to conditions within his own control, he will be paid only for the time worked.

5. Schedules of work hours will be made up each week for the following week.

E. Planned Overtime

1. Planned overtime payments are made to an exempt employee when he works assigned hours on a Saturday, Sunday or a paid holiday. On a paid holiday, the planned overtime rate is in addition to the straight time rate. Such payments will be made when the employee's salary base rate is between \$430 and \$911 per month; and when he is classified as an executive, professional, or administrative employee. No planned overtime will be paid if the Saturday or Sunday work is a part of the employee's regular 40-hour schedule.

2. Planned overtime payments for hours worked will be made in accordance with the following schedule for any week in which an exempt employee is told to work a minimum of 2 hours on Saturday, Sunday, or a paid holiday. Payment will not be made for any worked period of less than 2 hours. Payment for work periods of 8 hours or more will be limited to 8 hours pay. Absence, for any reason, earlier in the week will not take away his planned overtime. If the employee is absent for the period assigned on Saturday, Sunday or a paid holiday, planned overtime will not be paid.

Schedule of Planned Overtime Amounts

(Subject to the pay limitations specified in paragraph 3)

Saturday or Sunday

- a. If the exempt employee's salary base rate is \$430 but less than \$460 per month, planned overtime will be paid at the rate of time and one-half.
- b. If the exempt employee's salary base rate is \$460 but less than \$693 per month, planned overtime will be paid at the rate of \$4.00 per hour.
- c. If the exempt employee's salary base rate is \$693 but less than \$911 per month, planned overtime will be paid at a straight time rate.

Paid Holiday

- a. If the exempt employee's salary base rate is \$430 but less than \$911 per month, planned overtime will be paid at a straight time rate, in addition to regular holiday pay.

3. The planned overtime payment each week will be adjusted so that the total pay for the week, exclusive of night shift premium, does not exceed \$210.

4. Planned overtime payments may be worked out for employees regularly assigned to exceptionally heavy work schedules during the normal 5-day week, Monday through Friday. These payments will be on the same basis as for Saturday or Sunday.

5. Travel time on Saturday or Sunday will be considered for purposes of planned overtime to the extent that it falls within the period of the employee's regularly scheduled hours on other days of the week.

F. Premium Shift

1. Premium shift is defined as any regular workday shift which begins outside the hours of 7:00 a.m. to 9:00 a.m.

2. Any employee assigned to a premium shift will be paid a premium of 10% of his straight time and overtime earnings for all work performed while assigned to such shift.

3. When an employee works overtime before or after his regularly scheduled shift, it will be considered as part of that shift for the purposes of calculating shift premium.

4. Whenever, for any reason, an employee's shift assignment is changed during his workweek, his shift premium for that workweek will be computed on a daily basis.

G. Vacations

1. Hourly employees on the payroll at the beginning of the vacation period, who have or will have on July 1 of the current year, the following record of continuous service, will be paid vacation pay at their current hourly base rate as indicated:

Less than 26 weeks	0 hours
26 weeks but less than 1 year.	20 hours plus 1/26 of 20 hours for each week beyond 26 weeks
1 year but less than 2 years 12 weeks	40 hours
2 years 12 weeks but less than 3 years	40 hours plus 1 hour for each week beyond 2 years 12 weeks
3 years but less than 14 years 12 weeks	80 hours
14 years 12 weeks but less than 15 years	80 hours plus 1 hour for each week beyond 14 years 12 weeks
15 years and more.	120 hours

366-RA #23
1293-RA #11

Salary employees on the payroll at the beginning of the vacation period, who have or will have on July 1 of the current year the following records of continuous service, will be paid vacation pay at their current salary base rate for a 40-hour week as indicated:

- Less than 26 weeks 0 hours
- 26 weeks but less than 1 year . . . 40 hours plus 1/26 of 40 hours
for each week beyond 26 weeks
- 1 year but less than 14 years 12
weeks 80 hours
- 14 years 12 weeks but less than
15 years 80 hours plus 1 hour for each
week beyond 14 years 12 weeks
- 15 years 120 hours

Shift premium shall be added to such straight time wages for employees who, if they had worked during their vacation period, would have been assigned to a premium shift.

3. Employees who leave the Company at any time will be paid the accrued vacation pay to which their continuous service as of the time of leaving would entitle them under the applicable schedule.

4. In the event the majority of the employees have actually worked on a schedule averaging 48 hours a week for the first 6 months of the year, vacation payments provided above will be on a 48 hour week straight time pay basis so that each amount specified above will be increased by 20%.

H. Overtime Pay

1. Time and a half will be paid to hourly and non-exempt salary employees for all hours worked in excess of eight hours in any 24-hour period after the employee actually starts work.

2. The 24-hour period on consecutive days starts on the same hour as that which the employee reports for work on the first day of the week, except that if for any reason an employee reports for work at a later hour some later day in the week, the 24-hour period on the following days of that workweek will begin at such later hour.

3. Time and a half will be paid to hourly and non-exempt salary employees for all hours worked:

- a. In excess of 40 in any one workweek.
- b. During the Saturday workday.

4. Double time will be paid to hourly and non-exempt salary employees for all hours worked:

- a. During the Sunday workday.
- b. During the workday and on holidays listed in O.

5. Overtime for work during the Saturday and Sunday workdays as such will not be paid to employees on continuous operations (such as watchmen, firemen, tending gas house, etc.) but instead such an employee will be paid:

- a. One and one-half his regular straight time rate of pay for all work performed during the workday of his first scheduled day off for that workweek; and
- b. Twice his regular straight time rate of pay for all work performed during the workday of his second scheduled day off for that workweek.

Overtime for work during the holiday workday as such will be paid to employees on continuous operations for the holidays listed in O.

6. Overtime rates will not be pyramided where more than one rate applies. Only the highest single rate will be paid.

I. Savings and Retirement Plan

1. The employee contribution to the Savings and Retirement Plan is 3% of payroll earnings.
2. The company contributions to the plan are reimbursable as follows:
 - a. A prorata share of the actual normal contribution which is required to cover the currently accruing cost of benefits to be provided from contribution of the Company other than profit distributions.
 - b. A prorata share of the profit contribution up to but not to exceed five percent (5%) of direct labor cost.

The details of the plan are contained in a booklet which is on file in the Organization and Personnel Division.

J. Separation Pay

1. Any hourly employee with six or more months of continuous service who is laid off or discharged without prejudice by the Company may be given one week's notice or one week's separation pay at straight time for his regularly scheduled work week but not to exceed 40 hours.
2. Any salary employee with six or more months continuous service who is laid off or discharged without prejudice by the Company will be given two weeks' separation pay at his basic 40 hour week rate.

K. Travel Time (Hourly and Non-Exempt Salary Employees)

1. Time spent by an employee during regular working hours in traveling at the Company's instructions should be treated as hours worked. If the Company requests an employee to do a job during regular working hours which requires the employee to leave the place of business, the traveling time of the employee should be included in hours worked whether or not the particular job is within the employee's regular duties.

2. Travel time outside of regular working hours should be treated as hours worked when there is a continuation or extension of the employee's normal working day.

3. If an employee is told to report to work at a designated place other than his regular work location, but within the normal commuting area at a specified hour, or told to go directly home from such a location after completing his day's work, he will be paid for the time actually spent on the job but not for traveling time, unless the time spent going to and from such designated place of work is unreasonably disproportionate to the normal traveling time required in reporting for work at the usual work location. Normally, additional travel time in excess of one hour will be considered unreasonably disproportionate.

4. If an employee is told to report for work at a distant location requiring overnight travel by public transportation, or outside the normal commuting area, the hours spent in such travel outside of his regular working hours will not be treated as hours worked, provided that the employee is given adequate accommodations for sleep and relaxation, but the Company will pay for the costs of meals, room and transportation required in accordance with the travel policy shown in Q. If the employee chooses to use his own car instead of available public or company provided transportation, travel time in such cases will not be counted as work time unless it falls within his regular working hours.

5. If an employee is required to travel continuously for more than a full working day during which time he is not engaged in actual work for the Company, the time spent traveling during the regular working hours should be considered hours worked. The time outside of regular working hours need not ordinarily be considered hours worked except that if the employee is required to travel on Saturdays, Sundays and holidays, he should be considered as working on these days for the number of traveling hours between his established starting and stopping time on other days of the week.

6. In any case when an employee traveling for the Company is required to do any work at all, such as guarding materials, driving a car or truck or acting as a helper or relief man on a truck, such hours must be treated as hours worked.

L. Time Off for Marriage

1. When an hourly employee elects to be married at a time other than his scheduled vacation he will, upon request, be granted a week's time off without pay. If it is necessary to allow additional time for travel such additional time will be without pay.

2. When a non-exempt salary employee elects to be married at a time other than his scheduled vacation he will, upon request, be granted a week's time off with 40 hours pay. If additional time is allowed for travel such additional time will be without pay.

3. When an exempt key or technical salary employee elects to be married at a time other than his scheduled vacation and requests time off, he will be allowed up to 2 weeks with pay.

4. If an employee is married either immediately before or immediately after his scheduled vacation, such extra time off as limited above will be in addition to his scheduled vacation.

M. Jury Duty

1. Whenever employees are called for jury duty and must therefore be absent from work, they will be given time off for the duration of their service as jurors.. Employees will be paid as follows during this time.

- a. Exempt employees - continue at full pay. These employees are expected to carry on their regular duties for the company during this period so far as it is possible.
- b. Hourly and non-exempt employees - The difference between their fees as jurors and their regular week's pay based on forty hours or their regularly scheduled hours, whichever is less.

N. Rest Periods

1. It has long been the practice of the Company to provide sufficient utility operators to relieve hourly employees on machine operations as necessary. Provision has also been made for relief of employees on non-machine operations.

2. In addition to the above, a ten minute rest period will be provided for factory employees at approximately the middle of each of the two work periods in any work day of eight or more hours. In shorter work days, a ten minute rest period will be provided at approximately the middle of any work period of four but less than six hours, and a fifteen minute rest period will be provided at approximately the middle of any work period of six but less than eight hours.

3. Because the work of supervisory, office and engineering employees does not permit the scheduling of a specific rest period, other provisions must be made for such employees.

O. Paid Holidays

1. New Year's Day, Good Friday, Decoration Day, Independence Day, Labor Day, Columbus Day (Salary employees only), Election Day, Thanksgiving, and Christmas.

2. When a holiday falls on Sunday, it will be observed the following Monday. When a holiday falls on Saturday, it will be observed either: (a) on the Friday preceeding the holiday; (b) by paying six days pay for 5 days work. That is, paying for Monday through Friday as days worked plus Saturday as a day of holiday pay; or (c) by declaring another and presumably more convenient date as the holiday.

P. Pay for Workmen's Compensation Waiting Period

1. When an employee received compensation for disability under a state Workmen's Compensation law, such as the New York State Law, which does not cover the one week's waiting period, the Company will pay him for that week's waiting period at the Workmen's Compensation rate, less tax deductions. The Company will make no payments under this policy when the time lost is, sever calendar days or less.

2. In some states Workmen's Compensation is paid from the first day of injury if absence as a result of that injury extends beyond a specified period of time (five weeks in New York). In such states the Company will make no payment for the first week of absence where absence extends beyond these periods of time and Workmen's Compensation is paid from the first day of injury.

Q. Travel Policy

Travel on official business in the interest of this contract will be reimbursed as follows:

Actual transportation expense, plus pullman in the event travel is by rail. Transportation expense via private automobile at the rate of 7¢ per mile, plus ferry, bridge, tunnel or toll road charges and parking fees. Actual expense for lodging and an allowance of six dollars per day to cover other subsistence expenses during period of travel. Other allowable expenses include official telegrams, and telephone calls; streetcar and bus fares; taxi fares when public transportation is not practical; checking and handling of baggage.

R. Attendance at Meetings

When it is in the interest of the contract for an employee to attend professional meetings, he will be reimbursed in accordance with the Travel Policy as shown in Q.

S. Standards for Administration

1. In Excess of Maximum Rate

No person's rate will be increased to a level above the upper limit of the classification to which he is assigned.

2. Below the Minimum Rate

Wages or salaries below the minimum rate approved for a classification may be paid during probationary or training periods. That portion of an increase necessary to bring the wage or salary to the minimum of the range will not be subject to the fifteen per cent limitation on merit increases.

T. Military Leave Payment

The Company will pay to each employee with six or more months of continuous service, who is granted Long Term Military Leave, one month's pay at his current base rate, but not exceeding 173 hours of pay unless he enlists during a period of an approved occupational deferment. This payment will be made after the employee has reported to his first military station and upon receipt from him of notification of his service address, rank, and serial number.

U. Insurance

The Company will pay for each employee granted Long Term Military Leave, the premium for his group life insurance in effect at the time of his Military Leave for a period of 120 days.

* V. Sick Leave

The Contractor may at his discretion grant leaves with pay to employees who are incapacitated because of accident or illness. Any such leave in excess of fifteen working days in any calendar year is subject to approval of the Atomic Energy Commission.

* W. Miscellaneous Leave with Pay

In addition to other leaves with pay, the Contractor may grant paid leaves to employees for reasons such as death in the immediate family and illness in the immediate family, or other reasons personal in nature. If any such leave with pay exceeds five days during any calendar year, the Contractor must secure Atomic Energy Commission approval in order to be entitled to reimbursement.

** X. Supper Money

When employees working standard shifts are required by the Contractor to work through their normal supper hour, the Contractor will provide for a supper period of not less than one half an hour, without pay, and will reimburse employees for the additional expense resulting from having to purchase supper up to but not in excess of \$1.50.

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*Addition of policies.	Effective 12/10/51.	1293 - RA #7
*Addition of policies.	Effective 6/25/50.	366 - RA #19
**Addition of policy	Effective 2/1/54.	1293 & 366 -RA #7 & 8

APPENDIX A

of U. S. Government Contract No. AT(30-1)-1293

WITH

SYLVANIA ELECTRIC PRODUCTS INC.

Appendix "A" in "Drawings" Folder.

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Monthly Rate Ranges	5B & 5C

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I. JOB CLASSIFICATIONS AND SALARY RANGES

PLAN "A" (Normally Exempt)

<u>Job Title</u>	<u>Grade</u>
Division Traffic Manager	6K
Area Safety Engineer	6K
Supervisor of Warehousing	6K
Division Purchasing Agent	9J
Supervisor - Expediting	5K
Priorities Coordinator	4K
Chief Buyer	6K
Buyer	5K
Division Industrial Engineer	9J
Division Supervisor of Maintenance	8K
Division Manager of Quality Control	9J
Quality Control Spec.	7K
Division and Staff Counsel	13J
Office Manager	7K
Supervisor of an Office Department	4K
Supervisor of an Office Department Sec.	2K
Manager of Accounting	12J
Supervisor of Equipment Design	9J
* Equipment Design Spec.	8K
Equipment Designer	4K
Mechanical Equipment Spec.	8K
Tool Room Foreman	6K
Supervisor of Prod. Scheduling & Control	8K
Supervisor of Material Control	6K
Tool Coordinator	6K
Administrative Engineer	10J
Plant Manager - Class A Plant	13J
Plant Manager - Class B Plant	12J
Plant Manager - Class C Plant	10J
Manufacturing Superintendent	9J
General Foreman	8K
Technical Foreman	6K
Foreman, Class I	6K
Foreman, Class II	3K
Supervisor of Personnel	7K
Personnel Assistant	4K
Safety Engineer	4K
Supervisor of Product Engineering	9J
Supervisor of Quality Control	7K
Supervisor of Industrial Engineers	7K
Industrial Engineer, Sr.	6K
Industrial Engineer, Jr.	3K
Standards Applicator	3K
Supervision of Production Control	7K
Supervisor of Plant A/C	7K

I. JOB CLASSIFICATIONS AND SALARY RANGES (continued)

PLAN "A" (Normally Exempt) - (continued)

<u>Job Title</u>	<u>Grade</u>
* Engineering Specialist, Sr.	13J
Cost Accountant	3K
Purchasing Agent	5K
Supervisor of Maintenance	6K
** Engineering Manager A	13J
** Engineering Manager B	11J
Engineering Specialist	10J
** Section Head	10J
** Engineer in Charge	8K
** Senior Engineer	7K
Engineer	3K
Accountant Special	9J
Supervisor of A/C Department	7K
Supervisor of A/C Department Sec.	5K
Accountant, Senior	4K
Industrial Relations Assistant	3K
Industrial Relations Specialist	9J

PLAN "B" (Non-Exempt)

Cost Accountant, Jr.	60R
Time Study and/or Methods Clerk	59R
Time Study and/or Methods Clerk, Jr.	56R
Materials Requirements Analyst	62R
Production Control Clerk	59R
Production Control Clerk, Jr.	56R
Stock Clerk	59R
Stock Clerk, Jr.	56R
Drafting Section Supervisor	64R
Designer - Draftsman	63R
Draftsman	60R
Draftsman, Jr.	57R
Tracer	54R
Internal Expediter	59R
External Expediter	60R
Master Craftsman	64R
Production or Maintenance Supervisor I	62R
Production or Maintenance Supervisor II	60R
Safety Inspector	60R
Employment Interviewer or Counsellor	59R
Employment Interviewer or Counsellor, Jr.	56R
Nurse	57R
Nurse, Sr.	59R
Buyer, Jr.	59R
Production Scheduling Clerk	62R
Technician, Sr.	62R
Technician	59R
Technician, Jr.	56R
Experimental Glass Blower	62R

I. JOB CLASSIFICATIONS AND SALARY RANGES (continued)

PLAN "B" (Non-Exempt) - (continued)

	<u>Grade</u>
Billing Checker	54R
Specifications	62R
Requisition Clerk	57R
Office Boy or Girl	51R
Supervisor of an Office Dept., Sec. (Cl.I)	60R
Supervisor of an Office Dept., Sec. (Cl.II)	57R
Functional Clerk	59R
Clerk, Sr.	55R
Routine Clerk	52R
Mail and File Clerk	52R
Office and Stockroom Clerk	54R
Secretary Exec.	* 59Z
Secretary, Sr.	* 57Z
Secretary-Steno	* 55Z
Steno	54R
Transcriber	53R
Copy Typist	52R
Order Typist	54R
Duplicating Machine Operator	53R
Photostat and Blue Print Operator	54R
Multilith Operator "A"	55R
Multilith Operator "B"	54R
Multigraph Operator	54R
Billing Machine Operator	54R
Bookkeeping Machine Operator, Sr.	55R
Bookkeeping Machine Operator, Jr.	54R
Tabulating Procedure Clerk	59R
Tabulating Machine Operator "A"	56R
Tabulating Machine Operator "B"	55R
Key Punch Operator	54R
A/C Clerk, Sr.	56R
A/C Clerk, Jr.	54R
Bookkeeper, Sr.	56R
Bookkeeper, Jr.	54R
Payroll Clerk, Sr.	56R
Payroll Clerk, Jr.	54R
Cost Clerk, Sr.	56R
Cost Clerk, Jr.	54R
Invoice Clerk	55R
Telephone Operator & Receptionist I	56R
Telephone Operator & Receptionist II	54R
Accountant, Trainee	60R
Accountant, Jr.	60R
Traffic Clerk	62R
Warehouse Supervisor	58R
Warehouseman	54R
Industrial Relation Analyst or Asst., Jr.	58R
Routing Clerk	55R
Billing Clerk	56R
Inventory Clerk	55R
Addressograph Operator	54R

I. JOB CLASSIFICATIONS AND SALARY RANGES (continued)

HOURLY

<u>Job Title</u>	<u>Grade</u>
Janitor	5
Handyman	5
Lab Helper - Metallographic	4
Lab Helper Special Products	6
Machinist - Special Products	13
Mechanic "A"	17
Mechanic "B"	16
Development Machinist	20
Machinist "A"	18
Electrician	18
Gas Cylinder Supply	10
Pipefitter "A"	16
Tool and Stock Clerk	10
Tool and Die Maker "A"	20
Welder	18
Sheet Metal Worker	16
Tool Crib Attendant	10
Carpenter	16
Pipefitter	16
Lathe Operator	15
Milling Machine Operator	15
Contour Saw Operator - Learner	7
Tool & Die Maker "B"	18
Tool & Die Maker "C"	16
Machinist "B"	16
Machinist "C"	12
Millwright "A"	15
Millwright "B"	12
Group Leader, Maintenance	19
Shipping and Receiving Clerk	10
Stock Clerk	10
Caretaker	10
Groupleader - Equipment Assm.	19
Assembly Machinist "A"	18
Assembly Machinist "B"	16
Assembly Machinist "C"	11
Maintenance Machinist "A"	18
Maintenance Machinist "B"	16
Maintenance Machinist "C"	11
Guard Sergeant	13
Armed Courier	12
Armed Guard	11
Groupleader - Machine Shop	20
Inspector	20
* Electrician "C"	11

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*Addition of job classification

Effective 8/29/55

366-RA
1293-RA

I. JOB CLASSIFICATIONS AND SALARY RANGES - HOURLY (continued)

<u>Job Title</u>	<u>Grade</u>
Pump & Boiler Maintenance	16
Trades Helper	8
Laboratory Assistant - X-Ray	8
Engineering Assistant - Metallographic	12
Characterizing Powder Metallurgy Specimens	9
Powder Preparation, Pressing & Sintering	13
Engineering Assistant - Metal Processing	16

Deletion of all salary ranges

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Effective 8/29/55

355-RA #20
1293-RA #11

HOURLY RATE RANGES

<u>Grade</u>	<u>Starting Rate</u>	<u>Step 3</u>	<u>Step 2</u>	<u>Base Rate or Job Rate</u>
1	1.34	1.38	1.44	1.50
2	1.36	1.40	1.47	1.52
3	1.36	1.41	1.48	1.54
4	1.38	1.44	1.50	1.58
5	1.38	1.46	1.52	1.61
6	1.41	1.49	1.55	1.64
7	1.47	1.53	1.62	1.69
8	1.51	1.60	1.66	1.74
9	1.55	1.64	1.71	1.79
10	1.62	1.69	1.78	1.86
11	1.66	1.75	1.84	1.94
12	1.69	1.79	1.90	2.00
13	1.76	1.85	1.97	2.08
14	1.83	1.95	2.06	2.17
15	1.92	2.02	2.14	2.27
16	2.00	2.10	2.23	2.35
17	2.09	2.22	2.34	2.46
18	2.18	2.32	2.44	2.58
19	2.29	2.42	2.56	2.69
20	2.39	2.55	2.69	2.82

366-RA #26
1293-RA #14

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Addition of Hourly Rate Ranges

Effective 8/29/55

MONTHLY RATE RANGES

SCHEDULE J

<u>SALARY GRADE</u>		<u>RANGE</u>
9J	\$626	\$985
10J	691	1135
11J	766	1262
12J	841	1392
13J	959	1552

SCHEDULE K

<u>SALARY GRADE</u>		<u>RANGE</u>
2K	\$334	\$525
3K	359	568
4K	399	626
5K	439	691
6K	483	753
7K	525	818
8K	574	903

SCHEDULE Z

<u>SALARY GRADE</u>		<u>RANGE</u>
55Z	\$257	\$374
57Z	295	433
59Z	334	492
60Z	354	525

MONTHLY RATE RANGES

SCHEDULE R

<u>SALARY GRADE</u>	<u>RANGE</u>	
51R	\$216	\$257
52R	233	276
53R	233	295
54R	233	321
55R	245	346
56R	257	374
57R	276	407
58R	295	433
59R	314	460
60R	334	492
61R	354	525
62R	380	562
63R	413	600
64R	444	651
65R	477	702

A-5C

366 RA #26
1293-RA #14

Addition of Monthly Rate Ranges

Effective 8/29/55

II. EMPLOYEE RELATIONS POLICIES

A. Moving Expenses

Whenever a new key or technical employee is hired for a position in an exempt salary classification or a regular key or technical employee is transferred from a locality which is more than a reasonable commuting distance from the Sylvania plant or office in which he is to work, the Company may pay the cost of moving the employee, his immediate family, and his household goods and personal effects to (or near) the new location.

In general, the company will not pay the moving and transportation expenses of an employee living within a thirty-mile radius of the plant or office location.

Immediate family shall include a man's wife, children and any relative living with him and dependent upon him for support.

After arrival at the new location a daily allowance may be paid for a period not to exceed 30 days. This may be extended only if the employee has been unsuccessful in a sincere effort to find a place to live in the new location. Any such extension will require prior AEC approval.

Transportation expense will be reimbursed in accordance with the travel policy except that the subsistence allowance during travel will be as follows:

Employee	-	\$6.
Employee and wife	-	12.
Employee, wife and child	-	16.
Each additional person	-	4.

After arrival, the daily allowance, which includes subsistence and lodging will be as follows:

Employee	-	\$12.
Employee and wife	-	18.
Employee, wife and child	-	24.
Each additional person	-	4.

Actual expense of moving household goods and personal effects will include, packing, crating, insurance on goods in transit, unpacking, temporary storage charges not to exceed 30 days, disconnecting and connecting equipment such as stoves, ranges, etc.

B. Educational Benefits

The Company makes available to employees the following educational benefits. Payments by the company to or for the benefit of an employee are considered wages, and all such educational benefits are subject to both withholding and social security tax deductions, except when the Company requires an employee as part of his work to take a course or become a member of a society or club. In all cases

listed below where the employee receives financial assistance, the employee pay the whole cost, submits the receipted bill and is reimbursed for 50% of the cost less withholding and social security tax deductions.

1. Magazines

If the employee wishes to subscribe personally to a magazine which will be helpful to him on the job, the Company will pay one-half the subscription price and the magazine may be sent directly to the employee's home or to his company address. Only technical trade or similar magazines that apply to a specific problem will be approved. Such payments are subject to tax deductions.

2. Engineering and Management Societies

Where an employee is the official representative of the Company or attends meetings as part of his work, the Company will pay the whole cost of membership. Such payments are not subject to tax deductions. If the employee wishes a personal membership, and such membership will be helpful to the employee on his job, the Company will pay one-half of the membership fee, less tax deductions.

3. Outside Educational Courses

When an employee is assigned to a course as part of his work, the Company will pay the whole cost of the course.

In cases where an employee voluntarily elects to take an outside course of study, he will receive help from the Company towards meeting his tuition costs provided the course meets the following requirements:

- a. The course will improve the performance of the employee in his present job.
- b. He must obtain approval before enrolling in the course.
- c. He must complete the course satisfactorily and pay the tuition bill.

On presentation of the receipted tuition bill and a certificate of satisfactory completion of such a course, the Company will reimburse the employee for 50% of the tuition fee, less tax deductions.

C. Employee Benefit Program

The Company provides at no cost to the employee a program covering Group Life Insurance, Pensioner's Life Insurance, Accidental Death and Dismemberment Insurance, Non-occupational Disability Benefits, Hospital Benefits, and Surgical Benefits. A booklet describing these programs is on file in the Organization and Personnel Division.

366 - RA #16

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1293 - RA #4

Revision of Appendix "A". Effective 9/11/52

D. Reporting Times

1. An hourly employee reporting for work on any regular workday, not having been previously notified not to report, will receive full pay for his scheduled hours for the day even though idle or sent home early because of a delay, shortage or other reason beyond his control. This payment will not be made in the case of general or departmental shutdowns caused by power interruptions, fire, flood, or other conditions beyond the control of the Company.

2. No regular workday will be scheduled for less than four (4) hours.

3. Hourly employees who are called in for emergency work after they have left for the day, or during their scheduled day off, will be paid not less than four (4) hours work.

4. When an hourly employee works less than his regular scheduled hours for the day due to conditions within his own control, he will be paid only for the time worked.

5. Schedules of work hours will be made up each week for the following week.

E. Planned Overtime

1. Planned overtime payments are made to an exempt employee when he works assigned hours on a Saturday, Sunday or a paid holiday. On a paid holiday the planned overtime rate is in addition to the straight time rate. Such payments will be made when the employee's salary base rate is between \$430 and \$911 per month; and when he is classified as an executive, professional, or administrative employee. No planned overtime will be paid if the Saturday or Sunday work is a part of the employee's regular 40-hour schedule.

2. Planned overtime payments for hours worked will be made in accordance with the following schedule for any week in which an exempt employee is told to work a minimum of 2 hours on Saturday, Sunday, or a paid holiday. Payment will not be made for any worked period of less than 2 hours. Payment for work periods of 8 hours or more will be limited to 8 hours pay. Absence, for any reason, earlier in the week will not take away his planned overtime. If the employee is absent for the period assigned on Saturday, Sunday or a paid holiday, planned overtime will not be paid.

Schedule of Planned Overtime Amounts

(Subject to the pay limitations specified in paragraph 3)

Saturday or Sunday

- a. If the exempt employee's salary base rate is \$430 but less than \$460 per month, planned overtime will be paid at the rate of time and one-half
- b. If the exempt employee's salary base rate is \$460 but less than \$693 per month, planned overtime will be paid at the rate of \$4.00 per hour.
- c. If the exempt employee's salary base rate is \$693 but less than \$911 per month, planned overtime will be paid at a straight time rate.

Paid Holiday

- a. If the exempt employee's salary base rate is \$430 but less than \$911 per month, planned overtime will be paid at a straight time rate, in addition to regular holiday pay.

3. The planned overtime payment each week will be adjusted so that the total pay for the week, exclusive of night shift premium, does not exceed \$210.

4. Planned overtime payments may be worked out for employees regularly assigned to exceptionally heavy work schedules during the normal 5-day week, Monday through Friday. These payments will be on the same basis as for Saturday or Sunday.

5. Travel time on Saturday or Sunday will be considered for purposes of planned overtime to the extent that it falls within the period of the employee's regularly scheduled hours on other days of the week.

F. Premium Shift

1. Premium shift is defined as any regular workday shift which begins outside the hours of 7:00 a.m. to 9:00 a.m.

2. Any employee assigned to a premium shift will be paid a premium of 10% of his straight time and overtime earnings for all work performed while assigned to such shift.

3. When an employee works overtime before or after his regularly scheduled shift, it will be considered as part of that shift for the purposes of calculating shift premium.

4. Whenever, for any reason, an employee's shift assignment is changed during his workweek, his shift premium for that workweek will be computed on a daily basis.

G. Vacations

1. Hourly employees on the payroll at the beginning of the vacation period, who have or will have on July 1 of the current year, the following record of continuous service, will be paid vacation pay at their current hourly base rate as indicated:

Less than 26 weeks	0 hours
26 weeks but less than 1 year	20 hours plus 1/26 of 20 hours for each week beyond 26 weeks
1 year but less than 2 years 12 weeks	40 hours
2 years 12 weeks but less than 3 years	40 hours plus 1 hour for each week beyond 2 years 12 weeks
3 years but less than 14 years 12 weeks	80 hours
14 years 12 weeks but less than 15 years	80 hours plus 1 hour for each week beyond 14 years 12 weeks
15 years and more	120 hours

Salary employees on the payroll at the beginning of the vacation period, who have or will have on July 1 of the current year the following records of continuous service, will be paid vacation pay at their current salary base rate for a 40-hour week as indicated:

Less than 26 weeks 0 hours
26 weeks but less than 1 year . . 40 hours plus 1/26 of 40 hours
for each week beyond 26 weeks
1 year but less than 14 years 12
weeks 80 hours
14 years 12 weeks but less than
15 years 80 hours plus 1 hour for each
week beyond 14 years 12 weeks
15 years 120 hours

Shift premium shall be added to such straight time wages for employees who, if they had worked during their vacation period, would have been assigned to a premium shift.

3. Employees who leave the Company at any time will be paid the accrued vacation pay to which their continuous service as of the time of leaving would entitle them under the applicable schedule.

4. In the event the majority of the employees have actually worked on a schedule averaging 48 hours a week for the first 6 months of the year, vacation payments provided above will be on a 48 hour week straight time pay basis so that each amount specified above will be increased by 20%.

H. Overtime Pay

1. Time and a half will be paid to hourly and non-exempt salary employees for all hours worked in excess of eight hours in any 24-hour period after the employee actually starts work.

2. The 24-hour period on consecutive days starts on the same hour as that which the employee reports for work on the first day of the week, except that if for any reason an employee reports for work at a later hour some later day in the week, the 24-hour period on the following days of that workweek will begin at such later hour.

3. Time and a half will be paid to hourly and non-exempt salary employees for all hours worked:

- a. In excess of 40 in any one workweek.
- b. During the Saturday workday.

4. Double time will be paid to hourly and non-exempt salary employees for all hours worked:

- a. During the Sunday workday.
- b. During the workday and on holidays listed in O.

5. Overtime for work during the Saturday and Sunday workdays as such will not be paid to employees on continuous operations (such as watchmen, firemen, tending gas house, etc.) but instead such an employee will be paid:

- a. One and one-half his regular straight time rate of pay for all work performed during the workday of his first scheduled day off for that workweek; and
- b. Twice his regular straight time rate of pay for all work performed during the workday of his second scheduled day off for that workweek.

Overtime for work during the holiday workday as such will be paid to employees on continuous operations for the holidays listed in O.

6. Overtime rates will not be pyramided where more than one rate applies. Only the highest single rate will be paid.

I. Savings and Retirement Plan

1. The employee contribution to the Savings and Retirement Plan is 3% of payroll earnings.
2. The company contributions to the plan are reimbursable as follows:
 - a. A prorata share of the actual normal contribution which is required to cover the currently accruing cost of benefits to be provided from contribution of the Company other than profit distributions.
 - b. A prorata share of the profit contribution up to but not to exceed five percent (5%) of direct labor cost.

The details of the plan are contained in a booklet which is on file in the Organization and Personnel Division.

J. Separation Pay

1. Any hourly employee with six or more months of continuous service who is laid off or discharged without prejudice by the Company may be given one week's notice or one week's separation pay at straight time for his regularly scheduled work week but not to exceed 40 hours.
2. Any salary employee with six or more months continuous service who is laid off or discharged without prejudice by the Company will be given two weeks' separation pay at his basic 40 hour week rate.

K. Travel Time (Hourly and Non-Exempt Salary Employees)

1. Time spent by an employee during regular working hours in traveling at the Company's instructions should be treated as hours worked. If the Company requests an employee to do a job during regular working hours which requires the employee to leave the place of business, the traveling time of the employee should be included in hours worked whether or not the particular job is within the employee's regular duties.

2. Travel time outside of regular working hours should be treated as hours worked when there is a continuation or extension of the employee's normal working day.

3. If an employee is told to report to work at a designated place other than his regular work location, but within the normal commuting area at a specified hour, or told to go directly home from such a location after completing his day's work, he will be paid for the time actually spent on the job but not for traveling time, unless the time spent going to and from such designated place of work is unreasonably disproportionate to the normal traveling time required in reporting for work at the usual work location. Normally, additional travel time in excess of one hour will be considered unreasonably disproportionate.

4. If an employee is told to report for work at a distant location requiring overnight travel by public transportation, or outside the normal commuting area, the hours spent in such travel outside of his regular working hours will not be treated as hours worked, provided that the employee is given adequate accommodations for sleep and relaxation, but the Company will pay for the costs of meals, room and transportation required in accordance with the travel policy shown in Q. If the employee chooses to use his own car instead of available public or company provided transportation, travel time in such cases will not be counted as work time unless it falls within his regular working hours.

5. If an employee is required to travel continuously for more than a full working day during which time he is not engaged in actual work for the Company, the time spent traveling during the regular working hours should be considered hours worked. The time outside of regular working hours need not ordinarily be considered hours worked except that if the employee is required to travel on Saturdays, Sundays and holidays, he should be considered as working on these days for the number of traveling hours between his established starting and stopping time on other days of the week.

6. In any case when an employee traveling for the Company is required to do any work at all, such as guarding materials, driving a car or truck or acting as a helper or relief man on a truck, such hours must be treated as hours worked.

L. Time Off for Marriage

1. When an hourly employee elects to be married at a time other than his scheduled vacation he will, upon request, be granted a week's time off without pay. If it is necessary to allow additional time for travel such additional time will be without pay.

2. When a non-exempt salary employee elects to be married at a time other than his scheduled vacation he will, upon request, be granted a week's time off with 40 hours pay. If additional time is allowed for travel such additional time will be without pay.

3. When an exempt key or technical salary employee elects to be married at a time other than his scheduled vacation and requests time off, he will be allowed up to 2 weeks with pay.

4. If an employee is married either immediately before or immediately after his scheduled vacation, such extra time off as limited above will be in addition to his scheduled vacation.

M. Jury Duty

1. Whenever employees are called for jury duty and must therefore be absent from work, they will be given time off for the duration of their service as jurors. Employees will be paid as follows during this time.

- a. Exempt employees - continue at full pay. These employees are expected to carry on their regular duties for the company during this period so far as it is possible.
- b. Hourly and non-exempt employees - The difference between their fees as jurors and their regular week's pay based on forty hours or their regularly scheduled hours, whichever is less.

N. Rest Periods

1. It has long been the practice of the Company to provide sufficient utility operators to relieve hourly employees on machine operations as necessary. Provision has also been made for relief of employees on non-machine operations.

2. In addition to the above, a ten minute rest period will be provided for factory employees at approximately the middle of each of the two work periods in any work day of eight or more hours. In shorter work days, a ten minute rest period will be provided at approximately the middle of any work period of four but less than six hours, and a fifteen minute rest period will be provided at approximately the middle of any work period of six but less than eight hours.

3. Because the work of supervisory, office and engineering employees does not permit the scheduling of a specific rest period, other provisions must be made for such employees.

O. Paid Holidays

1. New Year's Day, Good Friday, Decoration Day, Independence Day, Labor Day, Columbus Day (Salary employees only), Election Day, Thanksgiving, and Christmas.

2. When a holiday falls on Sunday, it will be observed the following Monday. When a holiday falls on Saturday, it will be observed either: (a) on the Friday preceeding the holiday; (b) by paying six days pay for 5 days work. That is, paying for Monday through Friday as days worked plus Saturday as a day of holiday pay; or (c) by declaring another and presumably more convenient date as the holiday.

P. Pay for Workmen's Compensation Waiting Period

1. When an employee received compensation for disability under a state Workmen's Compensation law, such as the New York State Law, which does not cover the one week's waiting period, the Company will pay him for that week's waiting period at the Workmen's Compensation rate, less tax deductions. The Company will make no payments under this policy when the time lost is seven calendar days or less.

2. In some states Workmen's Compensation is paid from the first day of injury if absence as a result of that injury extends beyond a specified period of time (five weeks in New York). In such states the Company will make no payment for the first week of absence where absence extends beyond these periods of time and Workmen's Compensation is paid from the first day of injury.

Q. Travel Policy

Travel on official business in the interest of this contract will be reimbursed as follows:

Actual transportation expense, plus pullman in the event travel is by rail. Transportation expense via private automobile at the rate of 7¢ per mile, plus ferry, bridge, tunnel or toll road charges and parking fees. Actual expense for lodging and an allowance of six dollars per day to cover other subsistence expenses during period of travel. Other allowable expenses include official telegrams, and telephone calls; streetcar and bus fares; taxi fares when public transportation is not practical; checking and handling of baggage.

R. Attendance at Meetings

When it is in the interest of the contract for an employee to attend professional meetings, he will be reimbursed in accordance with the Travel Policy as shown in Q.

S. Standards for Administration

1. In Excess of Maximum Rate

No person's rate will be increased to a level above the upper limit of the classification to which he is assigned.

2. Below the Minimum Rate

Wages or salaries below the minimum rate approved for a classification may be paid during probationary or training periods. That portion of an increase necessary to bring the wage or salary to the minimum of the range will not be subject to the fifteen per cent limitation on merit increases.

T. Military Leave Payment

The Company will pay to each employee with six or more months of continuous service, who is granted Long Term Military Leave, one month's pay at his current base rate, but not exceeding 173 hours of pay unless he enlists during a period of an approved occupational deferment. This payment will be made after the employee has reported to his first military station and upon receipt from him of notification of his service address, rank, and serial number.

U. Insurance

The Company will pay for each employee granted Long Term Military Leave, the premium for his group life insurance in effect at the time of his Military Leave for a period of 120 days.

V. Sick Leave

The Contractor may at his discretion grant leaves with pay to employees who are incapacitated because of accident or illness. Any such leave in excess of fifteen working days in any calendar year is subject to approval of the Atomic Energy Commission.

W. Miscellaneous Leave with Pay

In addition to other leaves with pay, the Contractor may grant paid leaves to employees for reasons such as death in the immediate family and illness in the immediate family, or other reasons personal in nature. If any such leave with pay exceeds five days during any calendar year, the Contractor must secure Atomic Energy Commission approval in order to be entitled to reimbursement.

*X. Supper Money

When employees working standard shifts are required by the Contractor to work through their normal supper hour, the Contractor will provide for a supper period of not less than one half an hour, without pay, and will reimburse employees for the additional expense resulting from having to purchase supper up to but not in excess of \$1.50.

Y. Payment of Employment Agency Fee

When, in the contractor's opinion, payment of employment agency fees is necessary to secure properly qualified personnel, such payment will be reimbursed under the contract, provided that the agency fee does not exceed 5% of the offered annual salary.

A-15

*Revision of effective date.	Effective 12/10/51	1293 - RA #12
*Revision of effective date.	Effective 7/1/48	366 - RA #24

Z. Printed Material

The cost of printed material which is distributed to employees for training, information and indoctrination will be reimbursed. The type of material covered includes "Welcome to Sylvania", the "Beam" and "Annual Financial Report".

A-a. Employee Association

The contractor's contribution to the Sylvania Employee Association will be reimbursed at the rate of \$.06 per employee per week up to January 1, 1955, at which time the contribution will increase to \$.09. The Association sponsors social and recreational activities such as softball, Christmas parties, etc.

B

This document consists of _____ pages.
No. 2 of 12 copies. Series A.

CONTRACT No. AT(30-1)-1293.

AMENDMENT No. 5

CONTRACTOR AND ADDRESS:

SYLVANIA ELECTRIC PRODUCTS, INC.,
1740 Broadway,
New York, New York.

AMENDMENT FOR:

EXTENSION OF TERM TO JUNE 30, 1954.

LIMIT OF GOVERNMENT LIABILITY:

\$4,272,000.00 (\$1,000,000.00 Being For
the Fiscal 1954 Work).

THIS AMENDMENT, entered into as of the 1st day of July, 1953, by and between THE UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC. (hereinafter referred to as the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December, 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to amend said Contract, as heretofore amended, as hereinafter provided; and

WHEREAS, this Amendment is authorized by law, including the Atomic Energy Act of 1946, as amended;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore amended, is hereby amended further in the following respects:

1. In paragraph 1 of Article I, the concluding sentence (beginning with the clause "Between July 1, 1953 and December 31, 1953") is deleted. The text of said paragraph 1 is hereby designated as subdivision a of paragraph 1 of Article I. The following new subdivision b is added to paragraph 1 of Article I:

"b. Between July 1, 1953, and June 30, 1954 the Contractor shall conduct studies, experimental investigations and other research and development work for the Government, the scope of which is set forth in the classified document captioned "Amendment No. 1 to Appendix "B"; a copy of said Amendment No. 1 to Appendix "B" signed by the Contractor is on file in the offices of the Commission and said Amendment is incorporated herein by reference and made a part hereof."

2. The following is added at the end of the present text of paragraph 4 of Article II:

"Notwithstanding any other provision of this Contract, the Commission may, to the extent and upon such terms and conditions as it considers advisable and provides for in said writing, permit the Contractor, by written authorization, to engage at any such principal site in activities other than those incident to the work provided for above in this Contract."

3. In paragraph 1 of Article III, "December 31, 1953" is changed to "June 30, 1954".

4. Subdivision a of paragraph 1 of Article IV is changed to read as follows:

"a. A fixed fee of One Hundred Twenty Thousand Dollars (\$120,000.00) with respect to all of the work and services provided for in subdivision a of paragraph 1 of Article I, and a fixed fee of Fifty-Two Thousand One Hundred Fifty Dollars (\$52,150.00) with respect to all of the work and services provided for in subdivision b of paragraph 1 of Article I."

5. In subdivision a of paragraph 5 of Article IV, "of the fixed fee" is changed to "of each of the fixed fees".

6. Subdivision b of paragraph 6 of Article IV is changed to read as follows:

"b. (1) The Commission has obligated for this Contract, from obligational authority available to it, the sum of Three Million Two Hundred Seventy-Two Thousand Dollars (\$3,272,000.00) with respect to the work provided for in subdivision a of paragraph 1 of Article I, and the sum of One Million Dollars (\$1,000,000.00) with respect to work provided for in subdivision b of paragraph 1 of Article I. Each of said amounts may be increased by the Commission in its discretion, by written notice, from time to time.

(2) From time to time the Commission may notify the Contractor in writing (which writing may or may not be captioned "Financial Plans") of certain dollar ceilings to be applicable to all or various specified segments of the Contractor's activities under this Contract. Downward adjustments of dollar ceilings previously authorized under this subdivision (2) shall be promptly implemented by the Contractor, provided, however, that neither this provision nor subdivision (4) below shall preclude the Contractor from being compensated for work performed and related to Contractor costs and expenses incurred and commitments made, in good faith, in accordance with the previous notifications under this subdivision (2) and prior to its receipt and subsequent notification effecting the downward adjustments.

(3) The Contractor shall promptly notify the Commission in writing whenever it believes that any then monetary ceiling applicable pursuant to (1) or (2) above is insufficient, and its notice shall contain its reasons for its belief and its estimate of such insufficiency.

(4) If and when the total of amounts paid and then payable under this Contract to the Contractor excluding any fixed fee or fees, but including the Contractor's reasonable estimate of the total reimbursable costs involved in closing out and settling

(all of its pertinent outstanding commitments) shall equal any then dollar limitation applicable to subdivision (2) above, the Contractor shall promptly notify the Commission accordingly in writing and shall not incur any further expenses nor perform further in connection with the item or items covered by the ceilings unless it receives a further written notice under said subdivision (2) which increases said ceilings.

(5) If and when the total of amounts paid and then payable under this Contract to the Contractor (including the portion of the pertinent fee or fees reasonably estimated by the Contractor to have been earned to that time, and including the Contractor's reasonable estimate of the total allowable costs involved in closing out and settling all of its pertinent outstanding commitments) shall equal any then dollar limitation applicable pursuant to subdivision (1) above, the Contractor shall promptly notify the Commission accordingly in writing and shall not incur any further expenses nor perform further in connection with the work covered by the ceiling unless it receives the further notice under said subdivision (1) above which increases said ceiling.

(6) Subject to the provision in subdivision (2) above, the total liability of the Government under this Contract shall accord with the pertinent monetary ceilings as established from time to time pursuant to subdivision (2) above.

(7) Notwithstanding any other provisions of this Contract, the total liability of the Government under this Contract shall be limited to the pertinent obligations applicable pursuant to subdivision (1) above."

7. In the third sentence of paragraph 2 of Article XIII, the concluding clause is deleted: "by the Act of April 5, 1952, Public Law 298, 82nd Congress, 66 Stat. 43."

IN WITNESS WHEREOF, the parties have executed this Amendment as of the day and year first above written.

Witnesses to execution
by the Contractor:

Jeanne K. Brouters
30-14 153rd - Flushing, N.Y.

Beatrice E. Kalman
199-04 21 Road, Bayside, N.Y.

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

H. B. Fry

H. B. FRY
MANAGER
NEW YORK OPERATIONS OFFICE

SILVANIA ELECTRIC PRODUCTS, INC.

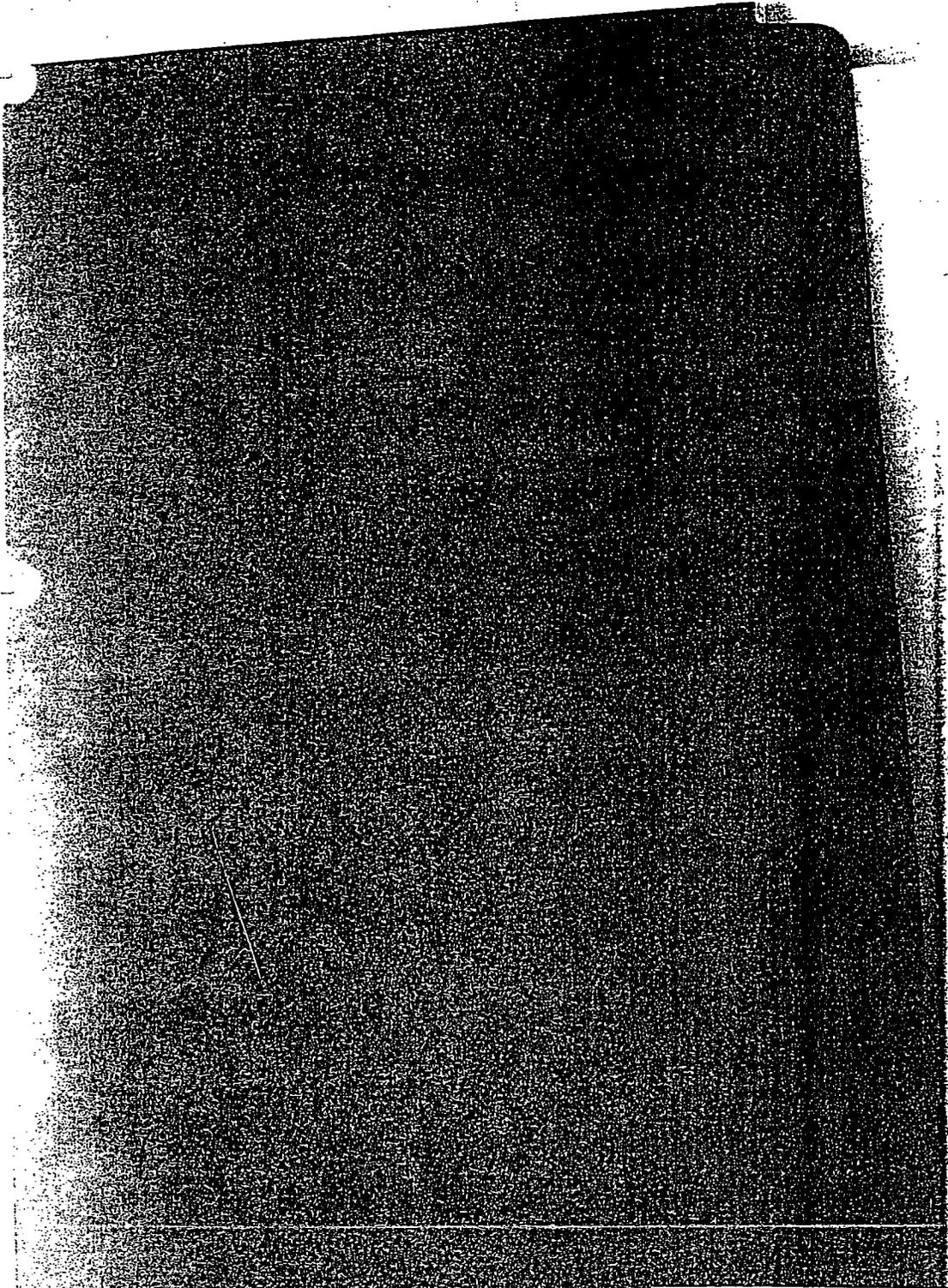
By: W. R. Rugstad
Title: General Manager, Atomic Energy Division

I, William F. Rueger, certify that I am the Assistant Secretary of the corporation named as Contractor herein; that W. C. Kingston who signed this Amendment on behalf of the Contractor was then Gen. Mgr. Atomic Energy Div. of said corporation; that said Amendment was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal of said corporation.

William F. Rueger

(Corporate Seal)



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File

This document consists of 53 pages.
No. 12 of 12 copies, Series A.

CONTRACT NO. AT(30-1)-1293

CONTRACT

CONTRACTOR AND ADDRESS:

SILVANIA ELECTRIC PRODUCTS, INC.
1740 Broadway
New York, New York

CONTRACT FOR:

RESEARCH AND DEVELOPMENT

TERM OF CONTRACT:

December 10, 1951 to June 30, 1953

→ LIMIT OF GOVERNMENT LIABILITY:

\$3,253,897.00

PAYMENT TO BE MADE BY:

Division of Disbursement,
United States Treasury Department,
New York, New York.
Submit invoices to:
United States Atomic Energy Commission,
P. O. Box 30, Ansonia Station,
New York 23, New York

BASIS OF AWARD:

NEGOTIATION

Priority Rating
In accordance with authority delegated to
the Atomic Energy Commission by the National
Production Authority, this contract is rated
DO-E-2, certified under NPA Regulation 2.

A TRUE COPY

M. M. Murray
[Signature]

[Signature]
Authorized Representative

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Accession UNN 326-87-007
M.C. [unclear] [unclear] [unclear] 1953
[unclear]

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of Agriculture, unless the Commission approves a substitute site in writing and until the date approved by the Commission for such substitution.

2. Alteration at Site

The Contractor shall alter the plant and other facilities at any principal site of the work, referred to in paragraph 1 above, to the extent the Commission considers such alterations necessary to the proper performance of the work hereunder.

3. Transfer of Site

The Contractor shall not sell, lease, license or otherwise transfer ownership or occupancy of any plant space or other facilities at any principal site of the work referred to in paragraph 1 above, or of said site or any portion thereof, without the approval of the Commission.

4. Non-Contract Activities

The Contractor shall not engage in or permit others to engage in activities other than activities in performance of the work of this contract at any principal site of the work referred to in paragraph 1 above, without the approval of the Commission.

5. Request for Approval

Any request of the Contractor to the Commission for approval pursuant to either of paragraphs 3 or 4 above, shall specify the extent of such transfer or non-contract activities and should further specify the Contractor's proposed reduction in the allowance for use and occupancy set forth in paragraph 3 of Article IV, CONSIDERATION, and the Contractor's estimate of the reduction in other costs of this contract to the Government that would result should the Commission grant the requested approval. Any reduction in the allowance for use and occupancy agreed upon shall be set forth in an amendment to this contract.

ARTICLE III - TERM, EXPIRATION AND TERMINATION

1. The period of performance of the work under this contract shall commence on December 10, 1951 and, subject to the provisions of this Article, shall end on June 30, 1953.

2. Termination

a. For Default.

The Government may at any time terminate performance of the work under this contract for the default of the Contractor.

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b. For the Convenience of the Government.

The Government, at its election, may for its convenience, (i) from time to time terminate in part performance of work under this contract, or (ii) at any time terminate in whole the performance of the work under this contract.

c. Notice of Termination.

Termination, under this paragraph, shall be effected by delivery to the Contractor of a written notice of termination, which notice (i) shall specify a date upon which said termination shall become effective, which date shall be at least sixty (60) days after the delivery of said notice; (ii) in the event of a termination in part, shall specify the portion or portions of the work so terminated and the period or periods during which said termination shall be effective; and (iii) shall specify whether said termination is for the default of the Contractor or for the convenience of the Government. Upon receipt of said notice of termination, the Contractor promptly, except as the notice may direct otherwise, shall (i) discontinue all terminated work as soon as is reasonably practicable, if the notice so directs, and in any event by the date specified in said notice of termination; (ii) cease all placing of orders for property or services in connection with the performance of the terminated work; (iii) proceed to the best of its ability to terminate all orders and subcontracts to the extent that they relate to the terminated work; (iv) assign to the Government in the manner and to the extent directed by the Commission, all the right, title and interest of the Contractor under the terminated portion of the orders and subcontracts so terminated; (v) settle, with the approval of the Commission, all subcontracts, obligations, commitments and claims related to the terminated work, the cost of which would be allowable in accordance with the provisions of this contract; (vi) continue performance of such part of the contract work, if any, as shall not have been terminated; and (vii) take such other action with respect to the terminated work as may be required under other Articles of this contract and, subject to the approval of the Commission, as may be otherwise appropriate, including but not limited to, action for the protection and preservation of Government property.

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d. Entry by Government After Default.

- (i) If performance of the work under this contract is terminated for the default of the Contractor, the Government (1) may exercise the option granted in Article VI, OPTION IN THE GOVERNMENT, to purchase the principal site of the work hereunder; (2) may exercise the right given in item (ii) of this subparagraph.
- (ii) Instead of exercising the option to purchase referred to in (i) above, the Government may elect, pursuant to this subsection, to occupy the property for a period not to exceed one year by paying the Contractor a monthly charge, in full satisfaction of all claims of the Contractor arising out of said entry and occupancy, including a claim for the fair rental value of said premises and facilities. Said monthly charge will be one-twelfth the yearly allowance for use and occupancy set forth in subparagraph j. of paragraph 3 of Article IV, CONSIDERATION.
- (iii) After termination for the default of the Contractor, and the exercise of either the option or right referred to in subparagraphs (i) and (ii) above, the Government may (a) enter upon and have exclusive occupancy of any principal site of the work described as such in paragraph 1 of Article II, SITE OF THE WORK, (b) take possession, for the period of such occupancy, of all materials, tools, machinery and appliances therein which may be owned by or are in the possession of the Contractor, (c) exercise during said occupancy all options, privileges and rights belonging to or exercisable by the Contractor in connection with such premises and facilities, and (d) complete or employ others to complete, the work of this contract therein. Said occupancy if done under (ii) above shall be for a period not to exceed one year.
- (iv) In addition, the Commission shall within the limits of its authority, indemnify and hold the Contractor harmless against any damages finally awarded in court actions or settlements made with the consent of the Commission, and against expenses incident to such court actions or settlements, where such actions and settlements are based on claims by third parties against the Contractor arising out of actions by the Government in use and occupancy of said premises and facilities pursuant to this subparagraph d.

e. Terms of Settlement.

Upon a termination of performance of all or part of the work under this contract, full and complete settlement of all claims of the Contractor with respect to the work of this contract so terminated shall be made as follows:

- (1) Assumption of Contractor's obligations. The Government may at the discretion of the Commission, assume and become liable for all obligations, commitments, and claims that the Contractor may have theretofore in good faith undertaken or incurred in connection with the terminated work, the cost of which would be allowable in accordance with the provisions of this contract, and the

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Contractor shall, as a condition of receiving the payments mentioned in this Article, execute and deliver all such papers and take all such steps as the Commission may require for the purpose of fully vesting in the Government all the rights and benefits of the Contractor under such obligations or commitments.

- (ii) Payment for Allowable Costs. The Government shall reimburse the Contractor or allow credit for all allowable costs incurred in the performance of the terminated work and not previously reimbursed or otherwise discharged.
- (iii) Payment for Close-Out Expense. The Government shall reimburse the Contractor (a) for such close-out expenses, (b) for such further expenditures as are made after the date of termination for the protection of the Government property, and (c) for such legal and accounting services in connection with settlement, as are required or approved by the Commission.
- (iv) Payment on Account of the Fixed Fee.
- a. If the performance of the work under this contract is terminated in whole for the default of the Contractor, no further payment on account of the fixed fee set forth in subparagraph a. of paragraph 1 of Article IV, CONSIDERATION, shall be made.
 - b. If the performance of the work under this contract is terminated in whole for the convenience of the Government, the Contractor shall be paid that portion of the fixed fee which the work actually completed, as determined by the Commission, bears to the entire work under this contract less payments previously made on account of the fee.
 - c. If the performance of the work under this contract is terminated in part for the convenience of the Government, the Contractor and the Commission shall promptly negotiate to agree upon an equitable adjustment of the fixed fee set forth in subparagraph a. of paragraph 1 of Article IV, CONSIDERATION, and the agreement reached shall be evidenced by a written, executed supplemental agreement to this contract. If the Contractor and the Commission fail to so agree upon such fee adjustment, within a reasonable time after such partial termination, the failure to agree shall be disposed of in accordance with Article XIV, DISPUTES, hereof.

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3. Expiration. In the event of expiration of the period of work performance hereunder without prior termination hereof, the Contractor shall (i) discontinue the contract work at the end of the day of expiration and (ii) take such other action as may be required under other provisions of this contract and, subject to the approval or ratification of the Commission, as may be otherwise appropriate, including but not limited to, action for the protection and preservation of Government property.

4. Claims in Favor of the Government. The obligation of the Government to make any of the payments required by this Article shall be subject to any unsettled claims in connection with this contract which the Government may have against the Contractor. Nothing contained in this Article shall be construed to limit or affect any other remedies which the Government may have as a result of a default by the Contractor.

5. Settlement upon Termination or Expiration. Any other provisions of this contract to the contrary notwithstanding, the Contractor and the Commission may agree upon the whole or any part of the amount or amounts which the Contractor is to receive upon and in connection with (i) any termination pursuant to this Article or (ii) expiration of the term of this contract without prior termination thereof. Any agreement so reached shall be evidenced by a written supplemental agreement to this contract which shall be final and binding upon the parties with regard to their respective claims against each other except as therein otherwise expressly provided.

ARTICLE IV - CONSIDERATION

1. Compensation for Contractor's Services.

As full consideration for the performance by the Contractor of the work of this contract (including (i) profit on all items and for all work, and (ii) reimbursement for all costs and expenses listed hereunder as allowable costs or otherwise not allowable under the terms of this contract) the Contractor shall receive from the Government:

- a. A fixed fee of One Hundred Twenty Thousand Dollars (\$120,000.00).
- b. Payment for allowable costs as hereinafter provided.

2. Basis for Determination of Allowable Costs.

The costs allowable under this contract shall be costs and expenses which are actually incurred by the Contractor in performing the work under this contract and which are necessary or incident to that performance. Allowable costs shall include, without limitation on the generality of the foregoing, the items described as allowable in paragraph 3 of this Article but shall not in any event include the items described as:

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unallowable in paragraph 4 of this Article except to the extent indicated therein. Failure to mention any item of cost in this Article is not intended to imply that it is either allowable or unallowable.

3. Examples of Allowable Costs.

The following are examples of items, the cost of which is allowable under this contract to the extent indicated:

a. Bonds and insurance, including self-insurance, approved by the Commission, the cost of which is not excluded by other provisions of this contract.

b. Transportation and communication, including (i) reconsignment, switching, demurrage and diversion charges; (ii) loading, unloading, storage, crating and packing charges; (iii) local and long distance telephone charges, facsimile and teletype messages, telegrams, cablegrams, radiograms, postage, post office box rental, messenger charges and delivery services.

c. Materials, supplies, tools, machinery, equipment, fuel and utilities, including the cost of processing and testing thereof by others and inspection, expediting, storage, salvage and other usual expenses incident to the procurement and use thereof, subject to the approvals required under any other provisions of this contract.

(1) The Contractor may use in its performance of the work of this contract, items manufactured by it in the ordinary course of its commercial business, provided that the Commission grants approval to each such use and provided further that the Commission and the Contractor shall have agreed, prior to any such approval, in writing but not necessarily by execution of an amendment to this contract, upon a unit price or prices for such items. The unit price or prices so agreed upon may include profit.

(11) The Contractor may withdraw from its general stores and use in its performance of the work of this contract items purchased by it before or during the period of performance of this contract for its general stores, provided that such withdrawal and use of said items shall be in accordance with the Contractor's statements of its daily procurement practices and procedures submitted to the Commission and approved by the Commission pursuant to subparagraph b of paragraph 1 of Article II, PROCUREMENT AND SUBCONTRACTS. The cost of any such item shall be determined in accordance with last-in, first-out inventory accounting principles.

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(iii) The Commission shall have the right to inspect any item provided by the Contractor for the work of this contract pursuant to sub-subparagraphs (i) and (ii) above and to reject any or all of such items which the Commission determines to be defective, in which event there shall be no cost to the Government on account of such rejected items and the Contractor shall at its own non-allowable cost and expense, remove all such rejected items from any site of the work to which they may have been delivered. The failure of the Government to inspect and reject any such item prior to its use by the Contractor in the work of this contract in accordance with the provisions of sub-subparagraphs (i) and (ii) above shall be deemed inspection and acceptance thereof, except as to latent defects, fraud and such gross negligence as constitutes fraud.

d. Patents, purchased designs and royalty payments, to the extent approved by the Commission.

e. Expert technical or professional assistance to the extent allowed by Article XXII, TECHNICAL AND PROFESSIONAL ASSISTANCE.

f. Taxes, fees and charges, levied by public authorities, which the Contractor is required by law to pay, except those which are imposed upon or arise by reason of or are measured by the Contractor's fee or which are excluded pursuant to other provisions of this contract. This item shall include interest costs and penalties incurred by the Contractor in compliance with Article XX, STATE AND LOCAL TAXES AND FEES, hereof.

g. In accordance with Appendix "A", or modifications thereto, labor (whether as wages, salaries, benefits, or other compensation, as prescribed by the Contractor's employment and employee welfare policies), recruiting of personnel, (including "help wanted" advertising), travel (including subsistence during travel), and the transportation of personnel and their household goods and effects. In case the full time of an employee of the Contractor is not applied to the work of this contract, the cost of his labor shall be included in this item only in proportion to the actual time so employed.

h. Expenses of litigation, including reasonable counsel fees, incurred in accordance with the provisions of this contract, and such other legal, accounting, and consulting fees as are approved by the Commission.

i. Alterations, additions, improvements and repairs to, and remodeling, reconstruction and ordinary maintenance of, facilities employed by the Contractor in performing the work of this contract, in accordance with Article XI, CONSTRUCTION, ALTERATION, AND REPAIR.

j. An allowance of Forty-One Thousand Seven Hundred Eighty Dollars (\$41,780.00) for the period from March 1, 1952 to December 31, 1952,

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and Fifty-Three Thousand Six Hundred Dollars (\$53,600.00) per year during the period thereafter of the Contractor's performance of the work of this contract at the Hicksville plant of the Contractor, prorated over said period. Said allowance is in lieu of any charge by the Contractor for the use and occupancy of said plant and is in lieu of costs and expenses actually incurred by the Contractor during said period for the following:

- (i) Depreciation of buildings on the Hicksville site of the work hereunder.
- (ii) Real estate taxes, including, among others, school, water, and sewage taxes and special assessments, on the land and buildings at said Hicksville site.
- (iii) Premiums for fire, smoke, storm, and hail insurance, and similar property insurance policies on the Contractor's Hicksville plant and on all property of the Contractor therein.
- (iv) Premiums for public liability insurance against damages to persons and properties of employees of the Contractor (except but not for Workmen's Compensation insurance) or of third persons, at the Contractor's Hicksville plant or resulting from the Contractor's operations therein.
- (v) Premiums for insurance against damages to motor vehicles, not Government-owned, used by the Contractor in connection with the work of this contract and against damages to persons and property resulting from operation by the Contractor and its employees of motor vehicles in connection with the work of this contract.

In the event the Hicksville plant is totally or partially made unusable for the performance of the work of this contract as a result of fire, explosion or other casualty, the Commission and the Contractor shall negotiate to agree upon an equitable downward adjustment of the allowance set forth in this subparagraph j. If the Commission and the Contractor fail to agree upon such adjustment within a reasonable time after such casualty, the failure to agree shall be disposed of in accordance with Article XIV, DISPUTES.

k. An allowance (in lieu of direct reimbursement) to cover the general and administrative expenses incurred by the Contractor's corporate office in New York City allocable to the work of this contract. The amount of this allowance shall be computed as a percentage, otherwise referred to herein as the G and A rate, of the costs of operation hereunder. For the purposes of this subparagraph costs of operation are defined as the costs, without duplication, incurred by the Contractor and allowable pursuant to subparagraphs a, b, c, e, g, l, n and o of this paragraph j but excluding costs of capital items of machinery and equipment procured for the work of this contract and including the costs of ordinary repairs and maintenance to any site of the work defined as a principle site of the work by Article II, SITE OF THE WORK.

- (i) A provisional G and A rate of three (3%) percent, subject to review and retroactive adjustment, is agreed upon at the commencement of this contract and the Government's

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payments to the Contractor shall be based initially upon said provisional rate. As soon after each June 30th during the term of this contract (or as soon after any intervening date of termination or expiration thereof) as is practicable, the Commission in consultation with the Contractor, shall review the actual expense to, and obligation incurred by, the Contractor during the contract period from the close of the previous period reviewed (or the date of commencement of the contract if there has been no previous period reviewed) to said June 30th (or intervening date of termination or expiration) attributable to the elements of costs covered by this allowance. Based upon such review, the Commission and the Contractor shall negotiate and agree upon a fixed rate for the period reviewed. Said fixed rate shall retroactively replace the provisional rate hitherto in effect for the period reviewed. Said fixed rate, or any other rate which the Commission and the Contractor may agree upon at said negotiation, shall, as a new provisional rate, (i) retroactively replace the provisional rate hitherto in effect from the close of the contract period reviewed to the date of agreement on said new rate, and (ii) prospectively be the new provisional rate until it is in turn replaced pursuant to the foregoing by a new provisional or fixed rate. In the event that a provisional rate is replaced by a lower or higher fixed or provisional rate, suitable retroactive adjustments in the payments shall be made promptly. Failure to agree upon a fixed rate pursuant to the foregoing shall be considered a dispute to be settled in accordance with the provisions of Article XIV, DISPUTES, hereof.

l. Costs of providing cafeteria, restaurant, or food commissary services to employees of the Contractor directly engaged in the performance of the work hereunder.

m. Expenses of moving and transporting the Contractor's and Government's property from any principal site of the work, as defined in paragraph 1 of Article II hereof, to any other site for the work, provided that the Commission orders or approves in advance the move, the new site and the method of transportation.

n. Close-out costs incurred by the Contractor after the expiration or termination of the period of performance of the work of this contract.

o. The cost to the Contractor of compliance with health and safety, security and property management standards and regulations of the Commission.

p. Losses and expenses, including losses and expenses resulting from claims of patent infringement, not compensated for by insurance or otherwise (including settlements made with the consent of the Commission),

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sustained by the Contractor in the performance of the work and certified in writing by the Commission to be just and reasonable, except losses and expenses expressly made unallowable under other provisions of this contract.

q. An allowance of Sixteen Thousand Six Hundred Dollars (\$16,600.00) for the procurement and accounting services performed by the Contractor's Central Engineering Department 50 Staff from the commencement of the term of this contract to June 30, 1952 in Contractor facilities other than the Contractor's Hicksville, Long Island Plant.

r. The direct cost to the Contractor of work performed under this contract with the approval of the Commission at the Bayside, Long Island, plant of the Contractor, plus indirect costs allocable to such work to the extent such indirect costs are agreed upon by the Commission and the Contractor.

s. Items of cost which are not expressly excluded by other provisions of this contract and which are specifically certified in writing by the Commission as allowable costs hereunder.

4. Example of Unallowable Costs: The following are examples of items, the cost of which is not allowable except as indicated:

a. Advertising, except "help-wanted" advertising or other advertising to the extent such other advertising is specifically authorized by the Commission.

b. Central and branch office expenses of the Contractor, except expenses of any principal site of the work described as such in paragraph 1 of Article II, SITE OF THE WORK, and except as expressly provided for elsewhere in this contract.

c. Commissions and bonuses (under whatever name) in connection with obtaining or negotiating for a Government contract.

d. Unless otherwise authorized by the Commission, costs of the character described in subdivision g. under examples of allowable costs, which are not in accordance with Appendix "A", or modifications thereto.

e. Provisions for contingent reserves.

f. Contributions, donations, dividend payments, interest on borrowings (however represented), bond discounts and expense and financial charges.

g. Entertainment expenses, except as provided in Appendix "A", or modifications thereto.

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h. Fines and penalties, unless incurred as a result of action by the Contractor in accordance with the express direction of the Commission or in accordance with the provisions of Article XI, STATE AND LOCAL TAXES AND FEES.

i. Capital additions and structural improvements to Contractor-owned or Contractor-leased facilities, except where such additions or improvements have been specifically approved by the Commission as being an aid to the performance of this contract, and only to the extent specifically agreed to by the Commission.

j. Losses from sales and exchanges of the Contractor's capital assets and losses on other contracts.

k. Membership in trade, business and professional organizations, except as specifically authorized by the Commission.

l. Subscriptions to periodicals or other publications, technical or otherwise, except as specifically authorized by the Commission.

m. Pensions, retirement, group health, accident and life insurance plans, except to the extent authorized under Appendix "A", or modifications thereto.

n. Storage of contract records after completion of contract operations, irrespective of contractual or statutory requirements regarding preservation of records, except as specifically allowed pursuant to paragraph 3 of Article VIII, hereof.

o. Taxes, fees and charges, levied by public agencies, which are imposed upon or arise by reason of or are measured by the Contractor's fixed fee.

p. Government-furnished property, except to the extent that cash payment therefor is required pursuant to procedures of the Commission applicable to transfers of such property to the Contractor from others (including other agencies of the Government) and the cost of insurance against loss, destruction or damage to Government-owned property.

q. Wages, salaries, or other compensation of the Contractor's corporate officers, except to the extent such wages, salaries or other compensation (including travel and subsistence) is paid (without duplication) pursuant to subparagraphs g. and k. of paragraph 3 of this Article.

r. Other items made unallowable by the provisions of this contract.

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5. Payment:

a. **Payment of the Fixed Fee.** Payment of ninety (90%) per cent of the fixed fee set forth in subparagraph a. of paragraph 1 of this Article shall be made by the Government monthly in amounts based on the percentage of the completion of the work hereunder, as determined from estimates submitted to and approved by the Commission.

b. The Government will make reimbursement payments for the allowable costs set forth in paragraph 3 of this Article monthly, or in the discretion of the Commission, at more frequent intervals.

c. Upon (i) the expiration of the period of performance of the work of the contract, (ii) completion of the work required by paragraph 3 of Article III, TERM, TERMINATION AND EXPIRATION, and (iii) the furnishing by the Contractor of a release in such form and with such exception as may be approved by the Commission of all claims against the Government under or arising out of this contract, accompanied by any accounting for Government-owned property required by Article V, GOVERNMENT PROPERTY, the Government shall promptly pay to the Contractor the unpaid balance of the consideration set forth in paragraph 1 of this Article (including any portion of the fixed fee withheld or not yet paid pursuant to subparagraph a. above) less deductions due under the terms of this contract and any sum required to settle any unsettled claim which the Government may have against the Contractor.

d. **Claims for Payment.** Claims for payment shall be accompanied by such supporting documents and justifications as the Commission shall prescribe.

e. **Discounts.** The Contractor shall take and afford the Government advantage of all available cash and trade discounts, rebates, allowances, credits, salvage, commissions and bonifications.

f. **Revenues.** Any revenues, apart from the fixed fee, accruing to the Contractor in connection with the work under this contract, shall be applied in reduction of allowable costs under this contract.

g. **Direct Payment of Charges - Deductions.** The Government reserves the right, upon ten (10) days written notice from the Commission to the Contractor, to pay directly to the persons concerned any charges for services, materials or freight which otherwise would be allowable under this contract. Any payment so made shall discharge the Government of all liability to the Contractor therefor.

6. Limit of Government Liability.

a. Estimates. The initially estimated cost of the work under this contract, including the fixed fee set forth in subparagraph a. of paragraph 1 of this Article, is Three Million Two Hundred Fifty-Three Thousand Eight Hundred Ninety-Seven Dollars (\$3,253,897.00). It is understood that neither the Government nor the Contractor guarantees the correctness of the initial estimate of cost or any revision thereof, and that there shall be no adjustment in the amount of the Contractor's fixed fee by reason of any errors in the computation of estimated costs or revised estimated costs, or any difference between any estimated cost or revisions thereof and the actual cost of the work.

b. Obligations. The Commission has initially obligated for this contract, from obligational authority available to it, the sum of Three Million Two Hundred Fifty-Three Thousand Eight Hundred Ninety-Seven Dollars (\$3,253,897.00). Said amount may be increased by the Commission in its discretion, from time to time. The Contractor promptly shall notify the Commission in writing whenever it believes that the then Commission obligation for this contract is insufficient, and its notice shall contain its estimate of the amount of such insufficiency. When and if the total of amounts paid and payable to the Contractor under this contract (including the fixed fee and the actual or estimated amounts unpaid by the Contractor on all subcontracts and all other commitments on the assumption that they will be completed), shall equal the then Commission obligation for this contract, the Contractor shall not be expected to incur further expenses nor to perform further hereunder unless the Commission agrees in writing to increase said obligation for this contract in an amount sufficient to cover additional work hereunder. Notwithstanding any other provisions of this contract, the liability of the Government under this contract shall be limited to the Commission obligation specified in this subparagraph, as same may be increased by the Commission by notice to the Contractor in writing.

ARTICLE V - GOVERNMENT PROPERTY

1. Except as otherwise specifically agreed upon in writing by the Contractor and the Commission and except as otherwise specifically provided herein

a. title to all property specially purchased by the Contractor for this contract, for which the Contractor is entitled to direct reimbursement under the provisions of paragraphs 2 and 3 of Article IV, CONSIDERATION, shall pass directly from the vendor to the Government; and

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b. title to all property utilized in the work of this contract, provided by the Contractor from Contractor-owned stores or manufactured by the Contractor in the ordinary course of its commercial business, for which the Contractor is entitled to reimbursement under the provisions of paragraphs 2 and 3 of Article IV, CONSIDERATION, shall pass to the Government at the time of such utilization.

2. The Government reserves the right to furnish any property or services required for or useful in the performance of the work under this contract. Title to all property so furnished shall remain in the Government.

3. The Government shall retain title to all products, by-products, wastage, salvage, work-in-process, residues and scrap resulting from property to which the Government has or had title pursuant to paragraphs 1 and 2 above.

4. All items of Government-owned property referred to above are hereafter collectively referred to in this Article as "Government property". To the extent practicable, the Contractor shall cause all non-expendable items of Government property to be suitably marked with an identifying mark or symbol indicating that the items are the property of the Government. The Contractor shall maintain, at all times and in a manner satisfactory to the Commission, records showing the disposition and use of Government property. Such records shall be subject to Commission inspection at all reasonable times. It is understood that the Commission shall at all reasonable times have access to the premises wherein any items of Government property are located.

5. The Contractor shall promptly notify the Commission of any loss or destruction of or damage to Government property (but not of any consumption of materials or supplies in the performance of its undertakings hereunder). Except as otherwise specifically provided in this contract, the Contractor shall not be liable for loss or destruction of or damage to Government property (in the possession or custody of the Contractor in connection with this contract) unless such loss, destruction or damage is due to gross negligence or wilful misconduct attributable to the Contractor or its supervisory employees.

6. Items of Government property referred to above shall not be used by the Contractor except in the performance of its obligations under this contract.

7. In the event of loss or destruction of or damage to Government property, the Contractor shall take such steps to subserve the Government's interest as the Commission authorizes or approves. If the Contractor is

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liable for loss or destruction of or damage to any items of Government property, it shall promptly account therefor to the satisfaction of the Commission; if the Contractor is not liable therefor, and is indemnified, reimbursed, or otherwise compensated for such loss, destruction or damage (other than by the Government under this contract), the Contractor shall promptly account to the Government for an equitable share of such indemnification, reimbursement, or other compensation; in any event, the Contractor shall do nothing to prejudice the Government's rights to recover against third parties for any such loss, destruction or damage; and upon request of the Commission, shall furnish the Government all reasonable assistance and cooperation (including the prosecution of suit and the execution of instruments of assignment in favor of the Government) in obtaining recovery.

8. The Contractor may, with the approval of the Commission, (1) transfer or otherwise dispose of items of Government property to such parties and upon such terms and conditions as so approved; or (2) itself acquire title to items of property at prices mutually agreed upon by the Commission and the Contractor without the necessity of execution of an amendment to this contract. The proceeds of any such transfer or disposition, and the agreed price of any such Contractor acquisition, shall be applied in reduction of any payments or reimbursement to be made by the Government to the Contractor under this contract or shall otherwise be paid in such manner as the Commission may direct.

9. The Contractor shall conform to all regulations and requirements of the Commission concerning the management, inventory control, storing and disposal of Government property. The Contractor agrees to prepare and submit to the Commission for review, within sixty (60) days after the execution of this contract, a written statement of the methods to be used and of the procedures to be followed by the Contractor in regard to management, inventory control, storing and disposal of Government property. The Contractor shall not use any method or procedure in this regard which the Commission has advised the Contractor is contrary to Commission policy or which is otherwise prohibited by this contract.

10. With respect to each item of Government property located at the Contractor's Hicksville, Long Island plant, not sold or otherwise disposed of by the Contractor or acquired by the Contractor pursuant to paragraph 8 above, the Government, within one hundred twenty days following the termination or expiration of the period of performance of this contract or any extensions thereof, if it has not exercised the option to purchase said plant as provided in Article VI, OPTION IN THE GOVERNMENT, shall abandon or remove it.

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(a) In the event the Government occupies said plant pursuant to subparagraph d (ii) of paragraph 1 of Article III, TERM, TERMINATION AND EXPIRATION, the rights in the Government to abandon or remove set forth in this paragraph shall be suspended during the period of such occupancy and the one hundred twenty day period during which the Government must either abandon or remove such property shall not commence to run until the end of such occupancy.

(b) Prior to determination by the Government to abandon or remove said item the Contractor agrees, if the Government so requests, to negotiate with the Government in good faith to purchase said item at a price mutually agreed upon; it being understood, however, that the Contractor shall not be required to negotiate any price in excess of the value to the Contractor of said item.

(c) In the event the Government removes any such item of Government property which is structurally incorporated in a building on the Hicksville site, either directly or by means of its foundations, accessory piping or instrumentation, the Government shall restore the pertinent portion of the Contractor's structure to substantially the condition immediately prior to the incorporation therein of the item of property except for reasonable wear and tear and except for damage by fire, explosion or other casualty. The Government agrees that in the event the Contractor requests, in lieu of such restoration, restoration to a condition other than that set forth in the preceding sentence, to restore in accordance with the Contractor's request if the Commission determines such alternative restoration will be in the interests of the Government.

(d) There shall be no charge to the Government by the Contractor for the storage of such property (i) for any period during which the Government may exercise the option set forth in Article VI hereof, (ii) for any period during which the Government may elect, in accordance with this paragraph, to abandon or remove such property, or (iii) during the period of the close-out of this contract.

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discovery, application, or patent, such license being limited to the manufacture, use, and sale for purposes other than use in the production or utilization of fissionable material or atomic energy. Subject to the license retained by the Contractor, as provided in this Article, the judgment of the Commission on these matters shall be accepted as final; and the Contractor for itself and for its employees, agrees that the inventor or inventors will execute all documents and do all things necessary or proper to carry out the judgment of the Commission.

2. No claim for pecuniary award or compensation under the provisions of the Atomic Energy Act of 1946 shall be asserted by the Contractor or its employees with respect to any invention or discovery made or conceived in the course of any of the work under this contract.

3. Except as otherwise authorized in writing by the Commission, the Contractor will obtain patent agreements to effectuate the purposes of paragraphs 1 and 2 of this Article from all persons who perform any part of the work under this contract, except such clerical and manual labor personnel as will not have access to technical data.

4. Except as otherwise authorized in writing by the Commission, the Contractor will insert in all subcontracts provisions making this Article applicable to the subcontractor and its employees.

5. The Contractor shall grant to the Government, to practise or have practised, an irrevocable, non-exclusive license in and to any inventions (whether patented or not), secret processes, technical information and techniques of production, research and plant operation, which are directly utilized by the Contractor in the performance of the work of this contract. Such license shall apply to the manufacture, use, and disposition of any article and material and to the use of any method or process. Such license shall be limited to governmental purposes related to (i) production of fissionable material, (ii) utilization of fissionable material, and (iii) utilization of atomic energy; provided, however, that the foregoing shall not limit the Government's right to sell, or cause to be sold, all products or by-products not used by or for the Government which result or remain from the use of any invention, process, information or technique to which such license applies.

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ARTICLE VIII - RECORDS AND ACCOUNTS

1. The Contractor shall keep and maintain a separate and distinct set of records and books of account together with all related memoranda, supporting documents and correspondence, showing all allowable costs incurred, revenues earned, fixed fee accruals and the use and disposition of all Government-owned property coming into the possession of the Contractor under this contract. The Contractor shall accurately record its financial transactions hereunder in said records and books of account. The system of accounts employed by the Contractor shall be in accordance with the generally accepted accounting principles and subject to the approval of the Commission.

2. Except to the extent, if any, otherwise approved by the Commission, all records, books of account, memoranda, supporting documents and correspondence referred to in paragraph 1 above

(i) shall be the property of the Government

(ii) shall be kept and maintained at the principal site of the work referred to in paragraph 1 of Article II, SITE OF THE WORK;

(iii) shall be subject to audit and inspection by the Commission at all reasonable times and the Contractor shall afford the Commission proper facilities for such inspection and audit; and

(iv) shall be delivered to the Government or otherwise disposed of by the Contractor either as the Commission may from time to time direct during the progress of the work or in any event as the Commission shall determine upon completion or termination of this contract and final audit of all accounts hereunder.

3. All records in the possession of the Contractor related to this contract, except those referred to in paragraph 1 above, and in Article XVI, SCIENTIFIC AND TECHNICAL DATA, shall be preserved by the Contractor without additional compensation therefor, for a period of five (5) years after final settlement of the contract or otherwise disposed of in such manner as may be agreed upon by the Government and the Contractor. The Government shall at all reasonable times have the right to examine, make copies of, and borrow said records, at no cost to the Government; provided, however, that

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except as otherwise agreed upon by the Government and the Contractor all such records which bear a security classification at the time of completion or termination of the work set forth in Article I, SCOPE OF THE WORK, or at the time of the expiration of this contract, shall become the property of the Government at such time and shall thereafter be delivered to the Government or otherwise disposed of by the Contractor as the Commission shall determine and provided further that neither this paragraph nor any other provision of this contract shall be deemed to require the Contractor at its unallowable cost to store or preserve records which bear a security classification.

ARTICLE IX - PROCUREMENT AND SUBCONTRACTS

1. Approvals.

a. The Contractor shall not enter into any subcontract without the written approval of the Commission of its terms and conditions. For the purposes of this paragraph, a subcontract is defined as any contractual arrangement (whether or not in the form commonly referred to as a "purchase order") with a third party for the performance of a specific part of the work to be performed under this contract, which arrangement is specifically made for such performance and the cost of which is, apart from the provisions of this paragraph, an allowable cost under this contract, except, however, arrangements covering (i) the furnishing of a basic raw material, (ii) the furnishing of a standard commercial or catalog item, or (iii) the employer-employee relation.

b. The Commission reserves the right, from time to time, by written notice from the Commission to the Contractor (i) to make any or all other commitments or classes of commitments hereunder (other than the contractual arrangements referred to in a. above) subject to, and to require their submission for, Commission approval, and (ii) to make any or all methods, practices, and procedures used or proposed to be used in effecting all arrangements and commitments hereunder subject to, and to require their submission for, Commission approval. In this regard, the Contractor agrees to prepare and submit to the Commission for review, within thirty (30) days after the execution of this contract (or any extension thereof approved in writing by the Commission), written statements of the daily procurement practices and procedures to be used and of the objectives intended to be accomplished by such practices and procedures. The Contractor will not use any procurement procedures prohibited by this contract or which the Commission has advised the Contractor are contrary to Commission policy.

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c. The Contractor shall obtain the prior written approval of the Commission before (i) purchasing motor vehicles, airplanes, typewriters, printing equipment, helium or alcohol, (ii) leasing, purchasing, or otherwise acquiring real property, (iii) procuring any item or service on a cost, cost-plus-fee or 'time and materials' basis, (iv) purchasing any item which the Commission specifies is to be obtained from indicated Government sources, and (v) purchasing any item at a cost in excess of \$2,000.00, where payment for the cost of any action specified in (i) through (v) will be claimed hereunder.

2. Writing Terms: The Contractor shall reduce to writing, unless this provision is waived in writing by the Commission, every subcontract or other commitment in excess of One Hundred Dollars (\$100.00) made by it for the purpose of its undertakings hereunder, except contracts covering the employer-employee relation (but not excepting contracts with consultants), insert therein a provision that such commitment is assignable to the Government, insert therein all other provisions required by law or expressly required by the provisions of this contract, and make all such commitments in its own name and not bind or purport to bind the Government or the Commission thereunder.

3. Procurement from Government Sources: From time to time, by separate instrument or instruments, the Contractor may be duly authorized to act as agent for and on behalf of the Government or the Commission respecting (i) the making of procurements in and for performance under this contract from so-called Government sources such as Federal Supply Schedule commercial sources, Armed Services Petroleum Purchasing Agency, Federal Prison Industries, Inc. and Federal Supply Service, and (ii) the issuing of tax exemption certificates pertinent to such procurements. The action so authorized shall be deemed to be within the scope of the Contractor's allowable cost of work performance under this contract.

ARTICLE I. - CONDUCT OF THE WORK, INSPECTION AND REPORTS

1. In performing the work called for under this contract, the Contractor
 - (i) shall utilize its best efforts, know-how and ability;
 - (ii) shall utilize its best efforts to have the work executed in the most workmanlike manner by qualified, careful and efficient workers in strict conformity with the best standard practices (subject to the directions of the Commission);
 - (iii) shall utilize its best efforts to provide sufficient technical, supervisory, administrative and other personnel to insure the prosecution of the work in accordance with pertinent production or other progress schedules;

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(iv) shall, if in the opinion of the Commission the Contractor falls behind any pertinent production or other progress schedule, use its best efforts to take such steps to improve its progress as the Commission may direct; and

(v) shall, if in the opinion of the Commission, the Contractor's personnel or other reimbursable costs are excessive for the proper performance of this contract, make such prospective reductions thereof as the Commission may direct.

2. The work of this contract is subject to (i) the general supervision of the Commission, and (ii) the Commission authorizations, approvals and directions otherwise provided for in this contract. The Contractor shall proceed in the performance of this contract and shall place emphasis (or relative emphasis) on the various phases of the work of said contract, as and to the extent requested by the Commission from time to time. The Commission shall have the right to inspect in such manner and at such times as it deems appropriate, all activities of the Contractor in, or related to the course of the work under this contract.

3. The Contractor shall keep the Commission fully advised of its progress hereunder and of the difficulties, if any, which it experiences and shall prepare and submit to the Commission, in such quantity and form as may be directed by the Commission.

(i) monthly progress reports,

(ii) interim technical reports on completion of specific phases of the work,

(iii) production schedules, financial and cost reports, construction completion reports and such other special reports as may be requested by the Commission from time to time, and

(iv) a final report summarizing its activities, findings, and conclusions.

4. The Contractor shall appoint from its staff an over-all director of the work of this contract. The selection and continued assignment to said work of this director shall be subject to the approval of the Commission.

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ARTICLE XI - CONSTRUCTION, ALTERATION OR REPAIR WORK

1. The Contractor shall not perform or have performed under this contract any construction, alteration or repair work in excess of One Thousand Dollars (\$1,000.00), including painting and decorating, without the prior written approval of the Commission.

2. In the event that the Contractor, under this contract, performs or has performed, construction, alteration or repair work, including painting and decorating, which work is within the scope of the Davis-Bacon Act (Act of March 3, 1931, c.411, Sec. 1, 46 Stat. 1494, as amended; 40 U. S. Code 276 (a) et seq.), the following provisions shall apply to such work:

a. All mechanics and laborers employed or working upon the site of the work, or under the Housing Act of 1949 in the construction or development of the project, will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by the Anti-Kickback Regulations (29 C.F.R. Part 3)), the full amounts due at the time of payment computed at wage rates not less than those contained in the wage determination decision of the Secretary of Labor, to be furnished to the Contractor by the Commission and which will be attached to Appendix "A" and made a part thereof, regardless of any contractual relationship which may be alleged to exist between the Contractor or subcontractor and such laborers and mechanics; and the wage determination decision shall be posted by the Contractor at the site of the work in a prominent place where it can be easily seen by the workers.

b. The Commission may withhold or cause to be withheld from the Contractor so much of the accrued payments or advances as may be considered necessary to pay laborers and mechanics employed by the Contractor or any subcontractor on the work the full amount of wages required by the contract. In the event of failure to pay any laborer or mechanic employed or working on the site of the work or under the Housing Act of 1949 in the construction or development of the project, all or part of the wages required by the contract, the Commission may, after written notice to the Contractor, sponsor, applicant, or owner, take such action as may be necessary to cause the suspension of any further payment, advance, or guarantee of funds until such violations have ceased.

c. (1) Payroll records will be maintained during the course of the work and preserved for a period of three (3) years thereafter for all laborers and mechanics working at the site of the work, or under the Housing Act of 1949 in the construction or development of the project. Such records will contain the name and address of each such employee, his correct classification, rate of pay, daily and weekly number of hours worked, deductions made and actual wages paid.

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(2) The Contractor will submit weekly a certified copy of all payrolls to the United States Atomic Energy Commission if the agency is a party to the contract, but if the agency is not such a party, the Contractor will submit the certified payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the Commission. The certification will affirm that the payrolls are correct and complete, that the wage rates contained therein are not less than those determined by the Secretary of Labor and that the classifications set forth for each laborer or mechanic conform with the work he performed. The Contractor will make his employment records available for inspection by authorized representatives of the Commission and the Department of Labor, and will permit such representatives to interview employees during working hours on the job.

d. Apprentices will be permitted to work only under a bona fide apprenticeship program registered with a State Apprenticeship Council which is recognized by the Federal Committee on Apprenticeship, U. S. Department of Labor; or if no such recognized Council exists in a State, under a program registered with the Bureau of Apprenticeship, U. S. Department of Labor.

e. The Contractor will comply with the regulations of the Secretary of Labor made pursuant to the Anti-Kickback Act of June 13, 1934, 48 Stat. 948; 62 Stat. 740; 63 Stat. 108; 18 U.S.C. 874, 40 U.S.C. 276 b, c, and any amendments or modifications thereof, will cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors, subject thereto, and will be responsible for the submission of affidavits required of subcontractors thereunder, except as the Secretary of Labor may specifically provide for reasonable limitations, variations, tolerances and exemptions from the requirements thereof.

f. The Contractor will insert in each of its subcontracts the provisions set forth in stipulations (a), (b), (c), (d), (e) and (g) hereof, and such other stipulations as the Commission may by appropriate instructions require.

g. A Breach of stipulations (a) through (f) may be grounds for termination of the contract.

ARTICLE XII - EIGHT-HOUR LAW

No laborer or mechanic doing any part of the work contemplated by this contract, in the employ of the Contractor or any subcontractor contracting for any part of said work contemplated, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this paragraph of the contract. The wages of every laborer or mechanic employed by the Contractor or any subcontractor engaged in the performance of this contract shall be computed on a basic day rate of eight hours per day and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For

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each violation of the requirements of this paragraph of the contract a penalty of five dollars shall be imposed upon the Contractor for each laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this paragraph of the contract, and all penalties thus imposed shall be withheld for the use and benefit of the Government. Provided, That this stipulation shall be subject in all respects to the exceptions and provisions of the Eight-Hour Laws as set forth in U. S. Code, Title 40, Sections 321, 324, 325, 325a, and 326, which relate to hours of labor and compensation for overtime.

ARTICLE XIII - DISCLOSURE OF INFORMATION

1. It is understood that unauthorized disclosure of any, or failure to safeguard all, material marked as "Security Information" that may come to the Contractor, or any person under its control, in connection with the work under this contract may subject the Contractor, its agents, and employees to criminal liability under the laws of the United States. See the Atomic Energy Act of 1946, 60 Stat. 755, as amended, Title 42, United States Code, Sec. 1801, et. seq. See also Title 18, United States Code, Secs. 791 to 798, both inclusive, and Executive Order No. 10,104, February 1, 1950, 15 F. R. 597.

2. The Contractor agrees to conform to all security regulations and requirements of the Commission. Except as the Commission may authorize, in accordance with the Atomic Energy Act of 1946, as amended, the Contractor shall not permit any individual to have access to restricted data until the designated investigating agency shall have made an investigation and report to the Commission on the character, associations, and loyalty of such individual, and the Commission shall have determined that permitting such person to have access to restricted data will not endanger the common defense and security. As used in this paragraph the term "designated investigating agency" means the United States Civil Service Commission or the Federal Bureau of Investigation, or both, as determined pursuant to the provisions of the Atomic Energy Act of 1946, as amended by the Act of April 5, 1952, Public Law 298, 82nd Congress, 66 Stat. 43. The term "restricted data" as used in this paragraph means all data concerning the manufacture or utilization of atomic weapons, the production of fissionable material, or the use of fissionable material in the production of power, but shall not include any data which the Commission from time to time determines may be published without adversely affecting the common defense and security.

3. Except as otherwise authorized in writing by the Commission, the Contractor shall insert in all agreements, made pursuant to the provisions of this contract which may involve security information, the provisions of paragraphs 1 and 2 of this Article.

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ARTICLE XIV - DISPUTES

Except as otherwise specifically provided in this contract, all disputes between the parties which may arise under, or in connection with, any part of this contract, prior to final payment, and which are not disposed of by mutual agreement, shall be decided by a representative of the Commission, duly authorized to supervise and administer performance of the undertakings hereunder, who shall reduce his decision to writing and mail a copy of said decision to the Contractor. Said decision shall be final and conclusive on the parties hereto, subject to the right of the Contractor to appeal, as provided for in the sentence next following. Within thirty days from the mailing of said decision, the Contractor may appeal, in writing, to the Commission, whose written decision thereon, or that of its duly authorized representative, representatives, or Board (but not including the Commission representative mentioned in the first sentence of this Article), duly authorized to determine such an appeal, shall be final and conclusive on the parties hereto. If any such dispute arises during performance by the Contractor of its undertakings hereunder, the Contractor shall diligently proceed with the performance of its undertakings under this contract, pending the decision of such dispute.

ARTICLE XV - SECURITY ACTION

Upon notice from the Commission that such action is considered to be in the interests of the common defense and security, the Contractor shall (i) deny any employee or other person access to the site of any contract undertakings or to "restricted data" within the meaning of the Atomic Energy Act of 1946, or (ii) dismiss from its undertakings under this contract any employee or other person.

ARTICLE XVI - SCIENTIFIC AND TECHNICAL DATA

All compilations of scientific and technical data (including, but not limited to, reports, notes, drawings, designs, specifications and memoranda) furnished or prepared by the Contractor pursuant to, or developed in connection with, the Contractor's undertakings under this contract, shall be property of the Government and the Government shall have the right to use such material in any manner and for any purpose without any claim on the part of the Contractor for additional compensation therefor. All provisions of paragraphs 4, 5, 6, 7, 8 and 9 of Article V relating to Government property are applicable to such material.

ARTICLE XVII - SOURCE AND FISSIONABLE MATERIALS

The Contractor agrees to conform to all regulations and requirements of the Commission with respect to accounting for source and fissionable materials (defined in the Atomic Energy Act of 1946).

ARTICLE XVIII - GUARD AND FIRE FIGHTING FORCES

In connection with its work under this contract, the Contractor shall provide such guard or fire fighting forces, with such uniforms and equipment, as the Commission may from time to time require or approve. The cost thereof shall be deemed to be allowable costs under paragraph 3 of Article IV hereof.

ARTICLE XIX - BONDS AND INSURANCE

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1. Except as otherwise specifically provided, the Contractor shall exert all reasonable efforts to procure and maintain such bonds and insurance policies as are (i) required by law, or (ii) required by the Commission.

2. Except as otherwise directed by the Commission, in every instance where the premium on a bond or insurance policy is an allowable cost under the contract, the bond or insurance policy shall contain endorsements or other recitals (i) excluding, by appropriate language, any claim on the part of the insurer or obligor to be subrogated, on payment of a loss or otherwise, to any claim against the United States, and (ii) providing for at least thirty (30) days prior written notice by registered mail to the United States Atomic Energy Commission of bond or policy cancellation, as the case may be.

ARTICLE XX - STATE AND LOCAL TAXES AND FEES

The Contractor shall notify the Commission of any tax, fee, assessment, duty or other charge asserted in behalf of any State, county, municipality, or any officer, commission, body or subdivision thereof, (i) in connection with property which is or will be Government-owned property covered by Articles V, VIII, and XVI hereof, (ii) in connection with any transaction between the Contractor and the Government, or (iii) in connection with the payments by the Government for the Contractor's performance under this contract, and shall refrain from paying same unless authorized to do so by the Commission. To the extent requested by the Commission, the Contractor (i) shall take steps to cause any such taxes, fees, assessments, duties or other charges to be paid under protest, and (ii) shall cause to be assigned to the Government or its designees, any and all rights to the abatement, refund or other recoupment of such charges paid under protest.

ARTICLE XXI - NON-DISCRIMINATION IN EMPLOYMENT

In connection with the performance of this contract, the Contractor agrees not to discriminate against any employee or applicant for employment because of race, creed, color, or national origin; and further agrees to insert the foregoing provision in all subcontracts hereunder except subcontracts for standard commercial supplies or for raw materials.

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ARTICLE XXII - TECHNICAL AND PROFESSIONAL ASSISTANCE

When, in the judgment of the Contractor, the complexity and nature of the contract undertakings are such as to require supplemental expert technical or professional assistance, services or advice in connection with special phases of a technical character, the Contractor may, with the written approval of the Commission, engage or otherwise obtain such supplemental services. Compensation and reimbursement to any consultant engaged pursuant to this article shall be governed by the provisions of Appendix "A" attached hereto except as may otherwise be specifically stated in the contract with such consultant approved by the Commission.

ARTICLE XXIII - ASSIGNMENT

Neither this contract nor any interest therein or claim thereunder shall be assigned or transferred by the Contractor except with the written approval of the Commission.

ARTICLE XXIV - LABOR DISPUTES

Whenever an actual or potential labor dispute interferes or threatens interference with the work of this contract, the Contractor shall immediately inform the Commission of such dispute and of the relevant facts.

ARTICLE XXV - COVENANT AGAINST CONTINGENT FEES

1. The Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty the Government shall have the right to annul this contract without liability or in its discretion to deduct from the contract price or consideration the full amount of such commission, percentage, brokerage, or contingent fee.

2. Unless otherwise authorized by the Commission in writing the Contractor shall cause provisions similar to paragraph 1 above to be inserted in all subcontracts and purchase orders entered into under this contract.

ARTICLE XXVI - CONVICT LABOR

In connection with the performance of this contract, the Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor. This provision shall not be construed to prevent the Contractor or any

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subcontractor from obtaining any of the supplies or any component parts or ingredients to be furnished under this contract or any of the materials or supplies to be used in connection with the performance of this contract, directly or indirectly, from any Federal, state or territorial prison or prison industry, provided, that such articles, materials or supplies are not produced pursuant to any contract or other arrangements under which prison labor is hired or employed or used by any private person, firm or corporation.

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ARTICLE XVII - WALSH-HEALEY ACT

To the extent only that the Walsh-Healey Public Contracts Acts, as amended (41 United States Code 35-45) is applicable to this contract, the following provision shall apply:

There are hereby incorporated by reference, the representations and stipulations required by said Act and regulations issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

ARTICLE XVIII - DOMESTIC ARTICLES

1. Unless the Commission shall determine it to be inconsistent with the public interest, or the cost to be unreasonable, the Contractor, its subcontractors, and all materialmen or suppliers shall use, in the performance of the work, only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States, and only such manufactured articles, materials, or supplies as have been manufactured in the United States substantially all from articles, materials, or supplies, mined, produced, or manufactured, as the case may be, in the United States. The provisions of this paragraph shall not apply if the articles, materials, or supplies of the class or kind to be used, or the articles, materials, or supplies from which they are manufactured are not mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of satisfactory quality.

2. Unless otherwise authorized by the Commission in writing, the Contractor shall cause provisions similar to paragraph 1 above to be inserted in all subcontracts and purchase orders entered into under this contract.

ARTICLE XXIX - OFFICIALS NOT TO BENEFIT

No member of or delegate to Congress or resident commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE XXX - RENEGOTIATION

1. This contract shall be deemed to contain all the provisions required by Section 104 of the Renegotiation Act of 1951 (Public Law 9, 82nd Congress).

2. The Contractor agrees to insert the provisions of this paragraph, including this subparagraph 2, in all subcontracts specified in Section 103 (g) of the Renegotiation Act of 1951; provided, that the Contractor shall not be required to insert the provisions of this paragraph in any subcontract excepted by or pursuant to Section 106 of the Renegotiation Act of 1951.

ARTICLE XXXI - SAFETY AND ACCIDENT PREVENTION

The Contractor shall initiate and take all reasonable steps and precautions to protect health and minimize danger from all hazards to life and property, shall make all reports and permit all inspections as required by the Commission, and shall conform to all health and safety regulations and requirements of the Commission.

ARTICLE XXXII - COMPLIANCE WITH LAWS

Except as otherwise directed by the Commission and subject to the provisions of Article XX, STATE AND LOCAL TAXES AND FEES, the Contractor shall procure all necessary permits and licenses; obey and abide by all applicable laws, regulations, ordinances, and other rules of the United States of America, of the State, territory, or political subdivision thereof, wherever the work is done, or of any other duly constituted public authority.

ARTICLE XXXIII - APPENDIX "A"

The Contractor shall abide by the provisions of Appendix "A" of this contract, as the same may be modified from time to time; provided, however, that in the event of conflict between the provisions of said Appendix "A" and the other provisions of this contract, the latter shall prevail.

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ARTICLE XXXIX - EXAMINATION OF RECORDS

1. The Contractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of three years after final payment under this contract, have access to and the right to examine any directly pertinent books, documents, papers and records of the Contractor involving transactions related to this contract.

2. The Contractor further agrees to include in all its subcontracts hereunder a provision to the effect that the subcontractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall, until the expiration of three years after final payment under such subcontract, have access to and the right to examine any directly pertinent books, documents, papers, and records of such subcontractor involving transactions related to the subcontract. The term subcontract as used herein does not include (i) purchase orders not exceeding One Thousand Dollars (\$1,000.00), or (ii) contracts or purchase orders for public utility services at rates established for uniform applicability to the general public.

3. Nothing in this contract shall be deemed to preclude an audit by the General Accounting Office of any transaction under this contract.

ARTICLE XXXIV - CLAIMS AND LITIGATIONS

1. The Contractor shall give the Commission immediate notice of any claim against the Contractor or suit or action filed or commenced against the Contractor, arising out of or connected with the performance of this contract, irrespective of whether or not the cost or expense of such claim, suit or action, is to be borne wholly or in part by the Government hereunder and irrespective of whether the Contractor is insured against any risk which may be involved. The Contractor shall furnish immediately to the Commission copies of all pertinent papers received by the Contractor.

2. Insofar as the following shall not conflict with any policy or contract of insurance, and to the extent requested by the Commission, the Contractor, with respect to any claim, suit or action, the cost and expense of which is or would be an allowable cost as defined in paragraph 2 of Article IV, or the proceeds of which is or would be revenues covered by paragraph 5 f. of Article IV, (i) shall promptly do any and all things to effect an assignment and subrogation in favor of the Government of all the Contractor's rights and claims, except as against the Government, arising from or growing out of any such claim, suit or action, or (ii) shall promptly authorize representatives of the Government to settle, defend, or otherwise handle any such claim,

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suit or action and to represent the Contractor in, and take charge of, any litigation resulting therefrom, or (iii) shall diligently handle any such claim, suit or action or defend or initiate any litigation in connection with any such claim, suit or action and in so doing, shall consult with the Commission as to the steps to be taken and shall otherwise endeavor in good faith to subserve the interests of the Government.

3. Subject to the provisions of paragraph 2 above, the Contractor shall diligently handle any claim whatsoever arising out of the performance of this contract and shall promptly defend or initiate any litigation in connection with any such claim, consulting with the Commission as to the steps to be taken.

4. With respect to any claim, matter or litigation arising out of the performance of this contract, the handling of which is undertaken by an insurance carrier or by a representative or representatives of the Government, the Contractor shall furnish all reasonable assistance and cooperation that may be requested by the Commission.

5. "Litigation", for the purposes of this Article, is defined to include proceedings before administrative agencies.

ARTICLE XXXVI - LETTER CONTRACT NO. AT(30-1)-1293

Letter Contract No. AT(30-1)-1293, entered into as of December 10, 1951, hereby is merged with and superseded by this contract.

ARTICLE XXXVII - CONTRACT APPROVAL

This contract is subject to the approval of the Director of the Division of Production of the United States Atomic Energy Commission and shall not be binding unless so approved.

ARTICLE XXXVIII - DEFINITIONS

1. As used in this contract, the terms "United States Atomic Energy Commission", "Atomic Energy Commission", and "Commission" shall mean the United States Atomic Energy Commission or its duly authorized representative or representatives.

2. All references in this contract to Commission or Government approvals, authorizations, directions or notices contemplate and require written action.

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IN WITNESS WHEREOF, the parties hereto have executed this contract as of the day and year first above written.

UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

/s/ H. E. Fitt
Manager
New York Operations Office

Witnesses:

/s/ W. E. Kingston
P. O. Box 89, Bayville, N.Y.
(Address)

/s/ W. F. Rueser
1740 Broadway, N.Y.C.
(Address)

SILVANIA ELECTRIC PRODUCTS, INC.

By: /s/ J. E. Merrill

Title: Vice President

I, J. E. Lowryd, certify that I am the Secretary of the corporation named as Contractor herein; that J. E. Merrill who signed this contract on behalf of the Contractor was then Vice President of said corporation; that said contract was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal of said corporation.

/s/ J. E. Lowryd
Secretary

(Corporate Seal)
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The above contract, AT(30-1)-1293, with Sylvania Electric Products, Inc., is hereby approved.

/s/ R. W. Cook
Director, Division of Production
United States Atomic Energy Commission

Date: 8-10, 1953

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APPENDIX A

of U. S. Government Contract No. AT(30-1)-1293

WITH

SYLVANIA ELECTRIC PRODUCTS INC.

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I. JOB CLASSIFICATIONS AND SALARY RANGES

Exempt Salary Jobs - Metallurgy Laboratories

<u>Salary Grade</u>	<u>Job Classification</u>	<u>Minimum</u>	<u>Maximum</u>
10J	Administrative Engineer	\$624	\$1026
9J	Division Purchasing Agent	566	891
9J	Manager of Personnel	566	891
5K	Buyer	397	624
9J	Supervisor of Equipment Design	566	891
7K	Equipment Design Specialist	474	740
4K	Equipment Designer	361	566
4K	Chief Draftsman	361	566
8K	Mechanical Equipment Specialist	519	816
4K	Tool Room Foreman	361	566
8K	General Foreman	519	816
6K	Foreman, Class I	437	681
3K	Foreman, Class II	325	513
4K	Personnel Assistant	361	566
4K	Safety Engineer	361	566
6K	Industrial Engineer, Senior	437	681
3K	Industrial Engineer, Junior	325	513
3K	Cost Accountant	325	513
5K	Purchasing Agent	397	624
10J	Engineering Manager	624	1026
10J	Engineering Specialist	624	1026
9J	Section Head	519	816
6K	Glass Equipment Specialist	437	681
7K	Engineer-in-Charge	474	740
6K	Senior Engineer	437	681
3K	Junior Engineer	325	513
4K	Supervisor of an Office Dept.	361	566
2K	Supervisor of an Office Dept. Section	301	474
7K	Supervisor of an Accounting Dept.	474	740
5K	Supervisor of an Accounting Dept. Sect.	397	624
4K	Accountant, Senior	361	566

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All the above rate ranges revised Eff. date 9/11/52 - 366 RA #14
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Non-Exempt Salary Jobs - Metallurgy Laboratories

<u>Salary Grade</u>	<u>Job Classification</u>	<u>Minimum</u>	<u>Maximum</u>
60R	Cost Accountant, Junior	\$301	\$444
59R	Stock Clerk	284	415
60R	Draftsman	301	444
57R	Draftsman, Junior	249	368
54R	Tracer	210	291
64R	Master Craftsman	402	588
62R	Production or Maintenance Supervisor I	343	508
60R	Production or Maintenance Supervisor II	301	444
60R	Safety Inspector	301	444
59R	Counsellor	284	415
56R	Counsellor Junior	232	338
58R	Cafeteria Steward	267	391
57R	Nurse	249	368
59R	Buyer, Junior	284	415
63R	Designer-Draftsman	373	543
62R	Technician	343	508
56R	Technician, Junior	232	338
51R	Office Boy or Girl	193	232
60R	Supervisor of Office Department Section I	301	444
57R	Supervisor of Office Department Section II	249	368
55R	Clerk, Senior	221	313
52R	Routine Clerk	210	249
52R	Mail and File Clerk	210	249
57R	Secretary, Senior	249	368
55R	Secretary-Stenographer	221	313
54R	Stenographer	210	291
52R	Copy Typist	210	249
56R	Accounting Clerk, Senior	232	338
54R	Accounting Clerk, Junior	210	249
56R	Cost Clerk, Senior	232	338
54R	Cost Clerk, Junior	210	249
56R	Telephone Operator and Receptionist I	232	338
54R	Telephone Operator and Receptionist II	210	249
60R	Accountant - Trainee	301	444
60R	Accountant, Junior	301	444

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All the above range rates revised. Eff. date 9/11/52

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Hourly Jobs - Metallurgy Laboratories

<u>Salary Grade</u>	<u>Job Classifications</u>	<u>Minimum</u>	<u>Maximum</u>
13	Laboratory Assistant - Metallographic	\$1.50½	\$1.77½
8	Laboratory Assistant - X-Ray	1.30½	1.49
18	Caretaker	1.86½	2.19
10	Laboratory Electrician	1.39	1.60
15	Metallurgical Laboratory Maintenance Mechanic "B"	1.64	1.93
6	Janitor	1.22	1.41
4	Lab Helper - Metallographic	1.19	1.35½
10	Gas Cylinder Supply	1.39	1.60
13	Security Patrolman and Courier	1.50½	1.77½
12	Security Patrolman	1.45	1.71
14	Security Sergeant	1.57	1.85½
20	Development Machinist - Metallurgy	2.04	2.41½
17	Maintenance Mechanic "A" Metallurgy	1.78½	2.09½
16	Engineering Assistant - Metal Processing	1.71	2.01
18	Maintenance Machinist - Metallurgy	1.86½	2.19
6	Laboratory Helper - Special Products	1.22	1.41
9	Characterizing Powder Met. Specimens	1.34½	1.54
13	Powder Prep., Pressing & Sintering	1.50½	1.77½
8	Lab. Man - Applied Research Section	1.30½	1.49
12	Machinist - Special Products	1.45	1.71
18	Group Leader - Maintenance and Construction Section	1.86½	2.19
11	Inspect Safety Conditions	1.43	1.65½

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II. EMPLOYEE RELATIONS POLICIES

A. Moving Expenses

Whenever a new key or technical employee is hired for a position in an exempt salary classification or a regular key or technical employee is transferred from a locality which is more than a reasonable commuting distance from the Sylvania plant or office in which he is to work, the Company may pay the cost of moving the employee, his immediate family, and his household goods and personal effects to (or near) the new location.

In general, the company will not pay the moving and transportation expenses of an employee living within a thirty-mile radius of the plant or office location.

Immediate family shall include a man's wife, children and any relative living with him and dependent upon him for support.

After arrival at the new location a daily allowance may be paid for a period not to exceed 30 days. This may be extended only if the employee has been unsuccessful in a sincere effort to find a place to live in the new location. Any such extension will require prior AEC approval.

Transportation expenses will be reimbursed in accordance with the travel policy except that the subsistence allowance during travel will be as follows:

Employee	--	--	\$ 6
Employee and wife	--	--	12
Employee, wife and child	--	--	16
For each additional person	--	--	4

After arrival, the daily allowance, which includes subsistence and lodging will be as follows:

Employee	--	--	\$12
Employee and wife	--	--	18
Employee, wife and child	--	--	24
For each additional person	--	--	4

Actual expense of moving household goods and personal effects will include, packing, crating, insurance on goods in transit, unpacking, temporary storage charges not to exceed 30 days, disconnecting and connecting equipment such as stoves, ranges, etc.

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B. Educational Benefits

The Company makes available to employees the following educational benefits. Payments by the Company to or for the benefit of an employee are considered wages, and all such educational benefits are subject to both withholding and social security tax deductions, except when the Company requires an employee as part of his work to take a course or become a member of a society or club. In all cases listed below where the employee receives financial assistance, the employee pays the whole cost, submits the receipted bill and is reimbursed for 50% of the cost less withholding and social security tax deductions. Costs of these educational benefits shall not be allowed costs under this contract except in those instances where the Commission has specifically approved the application of this Section II B and shall be allowed only to the extent approved by the Commission.

1. Magazines

If the employee wishes to subscribe personally to a magazine which will be helpful to him on the job, the Company will pay one-half the subscription price and the magazine may be sent directly to the employee's home or to his company address. Only technical trade or similar magazines that apply to a specific problem will be approved. Such payments are subject to tax deductions.

2. Engineering and Management Societies

Where an employee is the official representative of the Company or attends meetings as part of his work, the Company will pay the whole cost of membership. Such payments are not subject to tax deductions. If the employee wishes a personal membership, and such membership will be helpful to the employee on his job, the Company will pay one-half of the membership fee, less tax deductions.

3. Outside Educational Courses

When an employee is assigned to a course as part of his work, the Company will pay the whole cost of the course.

In cases where an employee voluntarily elects to take an outside course of study, he will receive help from the Company towards meeting his tuition costs provided the course meets the following requirements:

- a. The course will improve the performance of the employee in his present job.
- b. He must obtain approval before enrolling in the course.
- c. He must complete the course satisfactorily and pay the tuition bill.

On presentation of the receipted tuition bill and a certificate of satisfactory completion of such a course, the Company will reimburse the employee for 50% of the tuition fee, less tax deductions.

C. Employee Benefit Program

The Company provides at no cost to the employee a program covering Group Life Insurance, Pensioner's Life Insurance, Accidental Death and Dismemberment Insurance, Non-occupational Disability Benefits, Blue Cross Hospital Benefits, and Blue Shield Surgical Benefits. A booklet describing these programs is on file in the Organization and Personnel Division.

D. Reporting Time

1. An hourly employee reporting for work on any regular workday, not having been previously notified not to report, will receive full pay for his scheduled hours for the day even though idle or sent home early because of a delay, shortage or other reason beyond his control. This payment will not be made in the case of general or departmental shutdowns caused by power interruptions, fire, flood, or other conditions beyond the control of the Company.
2. No regular workday will be scheduled for less than four (4) hours.
3. Hourly employees who are called in for emergency work after they have left for the day, or during their scheduled day off, will be paid not less than two (2) hours work.
4. When an hourly employee works less than his regular scheduled hours for the day due to conditions within his own control, he will be paid only for the time worked.
5. Schedules of work hours will be made up each week for the following week.

E. Planned Overtime

1. Planned overtime payments are made to an exempt salary employee when he works assigned Saturday or Sunday hours. Such payments will be made when the employee's salary base rate is between \$395 and \$838 per month; when he is classified as an executive, professional, or administrative employee; and when he is not a member of the Sylvania Executive Compensation Plan. No planned overtime will be paid if the Saturday or Sunday work is a part of the employee's regular 40-hour schedule.

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2. Planned overtime of \$10.50 per week will be paid for any week in which the exempt employee is told to work an extra half day on Saturday or Sunday. Absence, for any reason, earlier in the week will not take away his planned overtime. If he is absent for the half day assigned on Saturday or Sunday, it will not be paid. A half day is a work period of more than 2 but less than 6 hours.

Planned overtime of \$21.00 per week will be paid for any week in which the exempt employee is told to work an extra full day on Saturday or Sunday. Absence, for any reason, earlier in the week will not take away his planned overtime. If he is absent for the full day assigned on Saturday or Sunday, it will not be paid. A full day is one of 6 or more hours.

3. Planned overtime of \$31.50 per week or \$42.00 per week will be paid to an exempt employee if he is told to work an extra $1\frac{1}{2}$ or 2 days on Saturday and Sunday.

4. Planned overtime of \$10.50 or \$21.00 will be paid to an exempt employee when he works a half day or a full day on a holiday that is a paid holiday for hourly employees at his location.

5. Planned overtime payments on a similar basis may be worked out for employees regularly assigned to exceptionally heavy work schedules during the normal 5-day week, Monday through Friday.

6. The planned overtime payment amount each week will be adjusted so that the total pay for the week, exclusive of night shift premium, does not exceed \$193.50.

Travel time on Saturday or Sunday will be considered for purposes of planned overtime to the extent that it falls within the period of the employee's regularly scheduled hours on other days of the week.

F. Night Shift Premium

1. Any employee assigned to a second or third shift will be paid a premium of 10% of his straight time and overtime earnings for all work performed while assigned to such shift.

2. When an employee works overtime before or after his regularly scheduled shift it will be considered as part of that shift for the purposes of calculating shift premium.

3. Whenever, for any reason, an employee's shift assignment is changed during his workweek, his shift premium for that workweek will be computed on a daily basis.

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G. Vacations

1. Hourly employees on the payroll at the beginning of the vacation period, who have or will have on July 1 of the current year the following record of continuous service, will be paid vacation pay at their current hourly base rate as indicated:

- a. Six months but less than one year: 20 hours' pay
- b. One year but less than three years: 40 hours' pay
- c. Three years but less than fifteen years: 80 hours' pay
- d. Fifteen years or more: 120 hours' pay

Salary employees on the payroll at the beginning of the vacation period, who have or will have on July 1 of the current year the following records of continuous service, will be paid vacation pay at their current salary base rate for a 40-hour week, as indicated:

- a. Six months but less than one year: 1 week's pay
- b. One year but less than fifteen years: 2 weeks' pay
- c. Fifteen years or more: 3 weeks' pay

2. Employees who leave the Company after July 1, and who have not received the vacation pay to which they are entitled, will receive such pay at the time of separation.

3. Employees who leave the Company at any time will be paid the accrued vacation pay to which their continuous service as of the time of leaving would entitle them under the applicable schedule.

4. In the event the majority of the employees have actually worked on a schedule averaging 48 hours a week for the first 6 months of the year, vacation payments provided above will be on a 48 hour week straight time pay basis so that each amount specified above will be increased by 20%.

H. Overtime Pay.

1. Time and a half will be paid to hourly and non-exempt salary employees for all hours worked in excess of eight hours in any 24-hour period after the employee actually starts work.

2. The 24-hour period on consecutive days starts on the same hour as that which the employee reports for work on the first day of the week, except that if for any reason an employee reports for work at a later hour some later day in the week, the 24-hour period on the following days of that workweek will begin at such later hour.

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3. Time and a half will be paid to hourly and non-exempt salary employees for all hours worked:

- a. In excess of 40 in any one work week.
- b. During the Saturday work day.

4. Double time will be paid to hourly and non-exempt salary employees for all hours worked:

- a. During the Sunday work day.
- b. During the work day and on holidays listed in O.

5. Overtime for work during the Saturday and Sunday work days as such will not be paid to employees on continuous operations (such as watchmen, firemen, tending gas house, etc.) but instead such an employee will be paid:

- a. One and one-half his regular straight time rate of pay for all work performed during the work day of his first scheduled day off for that work week; and
- b. Twice his regular straight time rate of pay for all work performed during the work day of his second scheduled day off for that work week.

Overtime for work during the holiday work day as such will be paid to employees on continuous operations for the holidays listed in O.

6. Overtime rates will not be pyramided where more than one rate applies. Only the highest single rate will be paid.

* I. Savings and Retirement Plan

The company contributions to the plan are reimbursable as follows:

- a. A pro rata share of the actual normal contribution which is required to cover the currently accruing cost of benefits to be provided from contribution of the Company other than profit distributions.
- b. A pro rata share of the profit contribution up to but not to exceed five percent (5%) of direct labor cost.

The details of the plan are contained in a booklet which is on file in the Organization and Personnel Division.

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*Rerording of Savings and Retirement Plan. Effective dates: 366 - 7/1/50
RA #13 for 366 RA #1 for 1293 1293 - 12/10/51

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J. Separation Pay

1. Any hourly employee with six or more months continuous service who is laid off or discharged without prejudice by the Company will be given one week's notice or one week's separation pay at straight time for his regularly scheduled work week but not to exceed 40 hours.
2. Any salary employee with six or more months continuous service who is laid off or discharged without prejudice by the Company will be given two weeks' separation pay at his basic 40 hour week rate.

K. Travel Time (Hourly and Non-Exempt Salary Employees)

1. Time spent by an employee during regular working hours in traveling at the Company's instructions should be treated as hours worked. If the Company requests an employee to do a job during regular working hours which requires the employee to leave the place of business, the traveling time of the employee should be included in hours worked whether or not the particular job is within the employee's regular duties.

2. Travel time outside of regular working hours should be treated as hours worked when there is a continuation or extension of the employee's normal working day.

3. If an employee is told to report to work at a designated place other than his regular work location, but within the normal commuting area at a specified hour, or told to go directly home from such a location after completing his day's work, he will be paid for the time actually spent on the job but not for traveling time, unless the time spent going to and from such designated place of work is unreasonably disproportionate to the normal traveling time required in reporting for work at the usual work location. Normally, additional travel time in excess of one hour will be considered unreasonably disproportionate.

4. If an employee is told to report for work at a distant location requiring overnight travel by public transportation, or outside the normal commuting area, the hours spent in such travel outside of his regular working hours will not be treated as hours worked, provided that the employee is given adequate accommodations for sleep and relaxation, but the Company will pay for the costs of meals, room and transportation required in accordance with the travel policy shown in Q. If the employee chooses to use his own car instead of available public or company provided transportation, travel time in such cases will not be counted as work time unless it falls within his regular working hours.

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5. If an employee is required to travel continuously for more than a full working day during which time he is not engaged in actual work for the Company, the time spent traveling during the regular working hours should be considered hours worked. The time outside of regular working hours need not ordinarily be considered hours worked except that if the employee is required to travel on Saturdays, Sundays and holidays, he should be considered as working on these days for the number of traveling hours between his established starting and stopping time on other days of the week.

6. In any case when an employee traveling for the Company is required to do any work at all, such as guarding materials, driving a car or truck or acting as a helper or relief man on a truck, such hours must be treated as hours worked.

L. Time Off For Marriage

1. When an hourly employee elects to be married at a time other than his scheduled vacation he will, upon request, be granted a week's time off without pay. If it is necessary to allow additional time for travel such additional time will also be without pay.

2. When a non-exempt salary employee elects to be married at a time other than his scheduled vacation he will, upon request, be granted a week's time off with 40 hours pay. If additional time is allowed for travel such additional time will be without pay.

3. When an exempt key or technical salary employee elects to be married at a time other than his scheduled vacation and requests time off, he will be allowed up to 2 weeks with pay.

4. If an employee is married either immediately before or immediately after his scheduled vacation, such extra time off as limited above will be in addition to his scheduled vacation.

M. Jury Duty

1. Whenever employees are called for jury duty and must therefore be absent from work, they will be given time off for the duration of their service as jurors. Employees will be paid as follows during this time.

- a. Exempt employees - Continue at full pay. These employees are expected to carry on their regular duties for the Company during this period so far as it is possible.

- b. Hourly and non-exempt employees - The difference between their fees as jurors and their regular week's pay based on forty hours or their regularly scheduled hours, whichever is less.

N. Rest Periods

1. It has long been the practice of the Company to provide sufficient utility operators to relieve hourly employees on machine operations as necessary. Provision has also been made for relief of employees on non-machine operations.
2. In addition to the above, a ten minute rest period will be provided for factory employees at approximately the middle of each of the two work periods in any work day of eight or more hours. In shorter work days, a ten minute rest period will be provided at approximately the middle of any work period of four but less than six hours, and a fifteen minute rest period will be provided at approximately the middle of any work period of six but less than eight hours.
3. Because the work of supervisory, office and engineering employees does not permit the scheduling of a specific rest period, other provisions must be made for such employees.

O. Paid Holidays

New Year's Day	Good Friday
Decoration Day	Independence Day
Labor Day	*Columbus Day
Election Day	Thanksgiving
Christmas	

*Salary employees only.

P. Pay for Workmen's Compensation Waiting Period

1. When an employee receives compensation for disability under a state Workmen's Compensation law which does not cover the one week's waiting period, the Company will pay him for that week's waiting period at the Workmen's Compensation rate, less tax deductions. The Company will make no payments under this policy when the time lost is seven calendar days or less.

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A2: In some states Workmen's Compensation is paid from the first day of injury if absence as a result of that injury extends beyond a specified period of time (five weeks in New York). In such states the Company will make no payment for the first week of absence where absence extends beyond these periods of time and Workmen's Compensation is paid from the first day of injury.

Q. Travel Policy

Travel on official business in the interest of this contract will be reimbursed as follows:

Actual transportation expense, plus pullman in the event travel is by rail. Transportation expense via private automobile at the rate of 7¢ per mile, plus ferry, bridge, tunnel or toll road charges and parking fees. Actual expense for lodging and an allowance of six dollars per day to cover other subsistence expenses during period of travel. Other allowable expenses include official telegrams, and telephone calls; streetcar and bus fares; taxi fares when public transportation is not practical; checking and handling of baggage.

R. Attendance at Meetings

When it is in the interest of the contract for an employee to attend professional meetings, he will be reimbursed in accordance with the Travel Policy as shown in Q.

S. Standards For Administration

1. In Excess of Maximum Rate

Wages or salaries in excess of the maximum rate approved for a classification will not be reimbursed.

2. Below the Minimum Rate

Wages or salaries below the minimum rate approved for a classification may be paid during probationary or training periods. That portion of an increase necessary to bring the wage or salary to the minimum of the range will not be subject to the fifteen per cent limitation on merit increases.

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3. Merit Increases

Merit increases may be granted up to an amount equal to fifteen per cent of the base rate for the classification during each twelve-month period. The first twelve-month period will begin on the date the employee is assigned to the classification.

4. Promotions

Promotions to higher-rated jobs may be accompanied by a wage or salary increase of not more than fifteen per cent above the present wage or salary or the minimum rate of the new classification, whichever is greater.

5. Salary Actions Above \$8,000

The approval of AEC will not be required for employment, merit increase, promotion, or other wage or salary actions through \$8,000 per year, if such actions are within the limitations of other wage and salary controls. All salary actions in excess of \$8,000 and all exceptions to other wage and salary controls will require prior approval of AEC. Requests will be made on AEC Form 37.

T. Stabilization Regulations

All actions are subject to compliance with the regulations of appropriate wage or salary stabilization authorities. Approvals by AEC presuppose such compliance.

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A

This document consists of pages.
No. 2 of // copies. Series a.

CONTRACT No. AT(30-1)-1293

AMENDMENT No. 1

CONTRACTOR AND ADDRESS:

SYLVANIA ELECTRIC PRODUCTS, INC.,
1740 Broadway,
New York, New York.

AMENDMENT FOR:

EXTENSION OF TERM TO SEPTEMBER 30, 1953.

LIMIT OF GOVERNMENT LIABILITY:

As provided for in 6b of Article IV,
the total being \$3,990,000.00

PAYMENT TO BE MADE BY:

Division of Disbursement,
United States Treasury Department,
New York, New York.
Submit invoices to:
United States Atomic Energy Commission,
P. O. Box 30 - Ansonia Station,
New York 23, New York.

THIS AMENDMENT, entered into the 19th day of June, 1953, by and between THE UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC. (hereinafter referred to as the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December, 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties hereto desire to amend said Contract, as hereinafter provided; and

WHEREAS, this Amendment is authorized by law, including the Atomic Energy Act of 1946, as amended;

NOW, THEREFORE, Contract No. AT(30-1)-1293 is hereby amended, but only in the following respects:

1. The following is added at the end of the present text of paragraph 1 of Article I:

"Between July 1, 1953 and September 30, 1953, however, the Contractor shall conduct under this Contract only such studies, experimental investigations and other research and development work as the Contractor and the Commission mutually agree upon in advance in writing, which writings may or may not be in the form of formal amendment or amendments to this Contract."

2. In paragraph 1 of Article III, "June 30, 1953" is changed to "September 30, 1953".

3. The punctuation mark at the end of the present text of la of Article IV is deleted and the following is added immediately thereafter:

"with respect to all of the work and services provided for in this Contract other than those added by Amendment No. 1 to this Contract, plus such sum with respect to the work and services added to this Contract by Amendment No. 1 to this Contract as the parties mutually agree upon in writing as reasonable or, failing such agreement, as is determined pursuant to Article XIV."

4. The following is added at the end of the present text of 5a of Article IV:

"Until the added sum provided for in 1a of this Article is so determined, the preceding sentence shall be deemed to refer only to the initial fee of One Hundred Twenty Thousand Dollars (\$120,000.00)."

5. The text of 6b of Article IV is changed to read as follows:

"b. Obligations. The Commission has obligated for this Contract, from obligational authority available to it, the sum of Three Million Nine Hundred Ninety Thousand Dollars (\$3,990,000.00). Said amount may be increased by the Commission, in its discretion, from time to time. Notwithstanding any other provisions of this Contract:

- (i) The Contractor shall promptly notify the Commission in writing whenever it believes that the sum of Three Million Two Hundred Seventy-Two Thousand Dollars (\$3,272,000.00), or such increased sum as the Commission may in its discretion specify in writing at any time or times, is insufficient with respect to all of the work and services under this Contract other than those added to this Contract by Amendment No. 1 to this Contract, and its notice shall contain its estimate of the amount of such insufficiency;
- (ii) The Contractor shall promptly notify the Commission in writing whenever it believes that the sum of Seven Hundred Eighteen Thousand Dollars (\$718,000.00), or such increased sum as the Commission in its discretion may specify in writing at any time or times, is insufficient with respect to the work and services added to this Contract by Amendment No. 1 to this Contract, and its notice shall contain its estimate of the amount of its insufficiency;
- (iii) If and when the total amount paid and payable to the Contractor under this Contract (including the initial fixed fee of One Hundred Twenty Thousand Dollars (\$120,000.00), and the actual or estimated amounts unpaid by the Contractor on all pertinent subcontracts and other pertinent commitments on the assumption that they will be completed), in

connection with the work and services referred to in (i) above, shall equal the sum of Three Million Two Hundred Seventy-Two Thousand Dollars (\$3,272,000.00), or such increased sum as the Commission may in its discretion specify at any time or times, the Contractor shall not be expected to incur further expenses in connection with said work and services nor to perform further in connection therewith unless the Commission agrees in writing to increase said sum by an amount sufficient to cover additional work or services;

- (iv) If and when the total amount paid and payable to the Contractor under this Contract (including the actual or estimated amounts unpaid by the Contractor on all pertinent subcontracts and other pertinent commitments on the assumption that they will be completed, and including the sum to be added to the fixed fee as provided for in 1a of Article IV or if said sum shall not yet have been determined including such estimate thereof as the Contractor makes in good faith), in connection with the work and services referred to in (ii) above, shall equal the sum of Seven Hundred Eighteen Thousand Dollars (\$718,000.00), or such increased sum as the Commission may in its discretion specify at any time or times, the Contractor shall not be expected to incur further expenses in connection with said work and services nor to perform further in connection therewith unless the Commission agrees in writing to increase said sum by an amount sufficient to cover additional work or services;
- (v) The Contractor shall perform the work and services referred to in (ii) above at monetary levels not in excess of those fixed by the Commission in pertinent written notices to the Contractor, and the Contractor shall promptly notify the Commission in writing whenever it believes that any of the latter levels may be insufficient; and
- (vi) The liability of the Government under this Contract shall be limited to the respective monetary ceilings provided for in the first sentence of this subparagraph b and in (i) through (v) above, as same may be increased by the Commission in its discretion in writing."

IN WITNESS WHEREOF, the parties hereto have executed this Amendment the day and year first above written.

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

Witnesses to execution
by the Contractor:

Janie K. Brauthers
30-14 153rd. - Flushing, N.Y.
(Address)

W. E. Kingston

Beatrice E. Kalmus

SYLVANIA ELECTRIC PRODUCTS, INC.

199-04 24 Road, Bayside, N.Y.
(Address)

By: W. E. Kingston

Title: General Manager, Atomic Energy Division

I, J. Shearoyd, certify that I am the Secretary of the corporation named as Contractor herein; that W. E. Kingston who signed this Amendment on behalf of the Contractor was then general manager of said corporation; that said Amendment was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal of said corporation.

J. Shearoyd
Secretary

(Corporate Seal)

UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office

C
O
F
Y

Address reply to:

Manager of Operations
U. S. Atomic Energy Commission
P. O. Box 30 - Ansonia Station
New York 23, New York

Effective as of September 1, 1953

and refer to GC:JR

Sylvania Electric Products, Inc.
P. O. Box 59
Bayside, New York

Attention: Mr. W. E. Kingston, Director
Atomic Energy Division

Subject: CONTRACT No. AT(30-1)-1293

Gentlemen:

Reference is made to paragraph 4 of Article II of Contract No. AT(30-1)-1293.

You are hereby given permission by the Commission to utilize the Hicksville premises and the items of Government-owned property situated in the Engineering, Drafting, and Machine Shop Departments at Hicksville, and the Government-owned furniture and office equipment in the Hicksville premises, and the personnel at Hicksville, for the purpose of conducting business at those premises other than in furtherance of the work provided for in Contract No. AT(30-1)-1293. This permission relates only to such work, other than that provided for in Contract No. AT(30-1)-1293, as is not otherwise to be performed for the Commission or for Commission contractors or subcontractors in furtherance of their Commission-connected agreements. The work covered by this permission is hereinafter in this Letter referred to as "outside work." You are hereafter in this Letter referred to as the "Contractor."

The following terms and conditions are part of this permission:

1. This permission is terminable by the Commission in whole or in part at any time or times by written notice to the Contractor.
2. These terms and conditions may be supplemented or otherwise amended in any respects by the Commission at any time or times by written notice to the Contractor.
3. The work under Contract No. AT(30-1)-1293 shall at all times, and without any qualification or limitation whatsoever, have the absolute priority in time, effort, and in all other significant respects, over any outside work.

4. The Contractor shall make such reports to the Commission as the Commission may request, and shall otherwise cooperate fully with the Commission, in connection with such analyses or other examinations that the Commission may make to ascertain whether to continue with permission in whole or in part or to amend these terms and conditions in any respects.
5. Except as the Commission may otherwise specifically approve in writing, only the personnel in the Engineering, Drafting, and Machine Shop Departments may be utilized as direct labor for any outside work. There shall be no personnel changes in any of those three departments, nor shall there be any personnel changes in any of the other departments at Hicksville by reason of outside work, excluding dismissal or resignation actions, without specific written approval of the Commission.
6. Beginning with the month of December, 1953, the Contractor shall furnish the Commission each month, on or about the 15th day of each month, a statement containing an itemization and brief description (including estimated completion date) of the outside work that in its estimation, arrived at in good faith, it expects to engage in at any time during the monthly period ending on the 15th day of the following month. Beginning with the statement to be submitted on or about January 15, 1954, each statement shall also itemize and describe briefly all of the outside work in which the Contractor was actually engaged during the monthly period ending on the due date of the report, and shall explain the differences (and the reasons therefor) between the Contractor's estimate of its outside work for the ensuing monthly period given in its previous monthly statement and the actual outside work in which the Contractor was engaged during that monthly period.
7. Prior to beginning any outside work the Contractor shall in each case, in manner and form acceptable to the Commission, record in good faith the nature of the work and its reasonable estimate of (i) the amount of time of the various Hicksville direct labor personnel entailed in the performance, (ii) the costs for said direct labor, (iii) the amount of time of the various Hicksville supervisory personnel entailed in the performance, (iv) the Government-owned equipment to be utilized, and (v) the amount of time of utilization of each item of such equipment. As the outside work progresses the Contractor shall record and evidence, in manner and form acceptable to the Commission, the actual time spent on outside work by the direct labor personnel, and such other data respecting the utilization of personnel, Government-owned equipment, or the Hicksville premises as the Commission may require from time to time. The Contractor shall make such reports to the Commission concerning the estimates or data referred to in this paragraph as the Commission may require. All of the records, reports, and statements referred to in this permission shall be Government-owned and fully covered by the provisions of Contract No. AT(30-1)-1293 pertaining to Government-owned records, reports, and data.

8. It is understood that the outside work is not, among other things, "work under this contract" as referred to in the Patent provisions of Contract No. AT(30-1)-1293. It is further understood that the Contractor shall be liable, and shall account promptly therefor to the satisfaction of the Commission, for all loss or destruction of or damage to Government-owned property in the Contractor's possession or custody by reason of Contract No. AT(30-1)-1293 which occurs by reason of or in connection with any outside work and results from any fault or negligence of the Contractor, its officers, agents, or employees, or others whose fault or negligence is attributable to the Contractor.
9. The Contractor shall, of course, pay directly to whomsoever may be involved, as a matter wholly unrelated to the work and the costs provided for in Contract No. AT(30-1)-1293, for all freight charges and for all materials and supplies connected with its outside work, as well as for all other items of non-Government-owned property which the Contractor desires to use in connection with its outside work. It is understood, however, that nothing in this permission shall be deemed to preclude in any respect the implementation of subdivision (ii) of paragraph 8 of Article V of Contract No. AT(30-1)-1293. It is further understood that the Contractor shall not, without the specific written approval of the Commission, install in the Hicksville premises for its use for any outside work any non-Government-owned equipment.
10. By application of the following system, and at times and in manner approved by the Commission, the Contractor shall pay or credit the Government under Contract No. AT(30-1)-1293 the sums determined as hereinafter provided:
 - a. The following categories of cost for the operation, maintenance, and administration of the entire Hicksville facility are to be distributed as follows:
 - (1) Expense labor costs are to be distributed to each of the Operations, Quality, Engineering Overhead, Administrative and General Overhead, and Security Departments, based on the respective numbers of expense labor personnel assigned to the said Departments.
 - (2) Payroll costs are to be distributed to each of the Operations*, Quality*, Engineering*, Drafting*, Machine Shop*, Engineering Overhead*, Administrative and General Overhead*, and Security* Departments based on the total wages and salaries (including expense labor) for each of the said departments.

- (3) Occupancy costs are to be distributed on the basis of the square footage occupied by each of the Operations, Quality, Engineering, Drafting, Machine Shop, and Administrative and General Overhead Departments.
- (4) Utilities costs are to be distributed as follows: Telephone costs entirely to the Administrative and General Overhead Department, power and light costs 70% to the Operations Department, 20% to the Machine Shop Department, and 10% to the Administrative and General Overhead Department, and water costs 90% to the Operations Department and 10% to the Administrative and General Overhead Department.
- (5) Division Prorate costs, consisting of the management, accounting, procurement and other administrative functions at Bayside pertinent to the Hicksville operation, are to be distributed entirely to the Administrative and General Overhead Department.
- (6) General Plant costs consisting of the following items are to be distributed as follows:
 - (i) Transportation: To be distributed entirely to the Operations Department.
 - (ii) Freight of SF Material: To be distributed entirely to the Operations Department.
 - (iii) Miscellaneous: To be distributed entirely to the Administrative and General Overhead Department.
 - (iv) Travel: To be distributed to the particular Department in which the employee-traveler is employed.
 - (v) Postage and Messenger Service: To be distributed entirely to the Administrative and General Overhead Department.
 - (vi) Moving and Installation: To be distributed to the Department in which the work is performed.
 - (vii) Rental of Equipment: To be distributed to the Department using the equipment.
 - (viii) Other General Items: To be distributed entirely to the Administrative and General Overhead Department.
- (7) Depreciation costs consisting of the following items are to be distributed as follows:

- (1) Process Equipment: The fixed monthly depreciation charge is \$7,632.00 and is to be distributed entirely to the Operations Department.
 - (ii) Laboratory Equipment: The fixed monthly depreciation charge is \$5,115.00 and is to be distributed entirely to the Quality Department.
 - (iii) Shop Equipment: The fixed monthly depreciation charge is \$6,691.00 and is to be distributed entirely to the Machine Shop Department.
 - (iv) Medical Equipment: The fixed monthly depreciation charge is \$3.00 and is to be distributed entirely to the Administrative and General Overhead Department.
 - (v) Motor Vehicles: The fixed monthly depreciation charge is \$51.00 and is to be distributed entirely to the Administrative and General Overhead Department.
 - (vi) Security and Protection: The fixed monthly depreciation charge is \$27.00 and is to be distributed entirely to the Operations Department.
 - (vii) Improvements to Property: The fixed monthly depreciation charge is \$943.00 and is to be distributed entirely to the Administrative and General Overhead Department.
 - (viii) Miscellaneous Equipment: The fixed monthly depreciation charge is \$159.00 and is to be distributed entirely to the Administrative and General Overhead Department.
 - (ix) Furniture and Fixtures: The fixed monthly depreciation charge is \$654.00 and is to be distributed entirely to the Administrative and General Overhead Department.
- (8) Indirect Materials costs are to be distributed to the Department using the material.
- (*These are all of the Departments.)
- b. The total of the Engineering Overhead Department costs, consisting of the expense labor and the other various items of cost allocated to that Department pursuant to a. above, is to be ascertained and distributed entirely to the Engineering, Drafting, and Machine Shop Departments on the basis of the respective total, for each of those departments, of all the labor costs (not referred to in a. above) therefor.

- c. The total of the Administrative and General Overhead Department costs, consisting of the expense labor and the various items of cost allocated to that Department pursuant to a. above, is to be ascertained and distributed entirely to the Operations, Quality, Engineering, Drafting, Machine Shop, and Security Departments based on the respective total, for each of those Departments, of all the labor costs therefor (that is, those referred to and those not referred to in a. above) plus the other various items of cost allocated to said Department pursuant to a. above plus (with respect to the Engineering, Drafting, and Machine Shop Departments) the items of cost allocated to said Department pursuant to b. above.
- d. With respect to each of the Engineering, Drafting, and Machine Shop Departments, the total of the costs allocated to said Department, consisting of all the labor costs (not referred to in a. above) plus all of the costs allocated pursuant to a. through c. above, is to be ascertained; from that total the total amount of the Department's direct labor salaries and wages is to be subtracted.
- e. With respect to each of the Engineering, Drafting, and Machine Shop Departments, the amount last determined pursuant to d. above is to be multiplied by a fraction the numerator of which is the total of the Department's direct labor wages and salaries allocated for the time of said labor spent on outside work and the denominator of which is the total of the Department's direct labor wages and salaries. The three resulting amounts, plus the direct labor wages and salaries allocated for the time of said labor, in each of the three said Departments, spent on outside work, are the sums to be due from the Contractor.
- f. All distributions and allocations referred to in this permission shall, of course, be subject to the approval of the Commission.
- g. All amounts to be paid or credited to the Government pursuant to this permission shall be so paid or credited as and when determined by the Commission. Pending the ascertainment and determination of the actual sums due under this permission, which shall be effected at time or times set by the Commission, the Contractor shall pay or credit the Government, as requested by the Commission, on the basis of provisional rates or sums established by the Commission for the purpose; all such provisional rates or sums shall subsequently be promptly adjusted to accord with the actual sums due.
- h. The Contractor shall pay directly, or pay or credit the Government, as the Commission requests, for all long distance telephone calls, telegrams, and travel of personnel, relating to the outside work, and for such other items of expense relating to outside work as the Commission may find

September 1, 1953

- h. should properly be covered by this subdivision h. Among other things, the Contractor shall, under this subdivision h., pay, or credit the Government with, all expenses relating to Workmen's Compensation Insurance which are over and above those which would have been incurred or paid, and reimbursable under Contract No. AT(30-1)-1293, if this permission has not been granted.
- i. All disputes under or in connection with this permission shall be resolved pursuant to the provisions of Article XIV of Contract No. AT(30-1)-1293.

Copies 1 and 2 of this Letter are for your execution and prompt return to this office; Copy 3 is for your retention.

Very truly yours,

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

/s/ H. B. Fry

H. B. Fry

Manager

New York Operations Office

Agreed:

SYLVANIA ELECTRIC PRODUCTS, INC.

By: /s/ W. E. Kingston

Title: General Manager
Atomic Energy Division

A

UNITED STATES
ATOMIC ENERGY COMMISSION
New York Operations Office

Address reply to:

Manager of Operations
U. S. Atomic Energy Commission
P. O. Box 30 - Ansonia Station
New York 23, New York

Effective as of September 1, 1953

and refer to: GC:JR

Sylvania Electric Products, Inc.
P. O. Box 59
Bayside, New York

Attention: Mr. W. E. Kingston, Director
Atomic Energy Division

Subject: CONTRACT No. AT(30-1)-1293

Gentlemen:

Reference is made to paragraph 4 of Article III of Contract No. AT(30-1)-1293.

You are hereby given permission by the Commission to utilize the Hicksville premises and the items of Government-owned property situated in the Engineering, Drafting, and Machine Shop Departments at Hicksville, and the Government-owned furniture and office equipment in the Hicksville premises, and the personnel at Hicksville, for the purpose of conducting business at those premises other than in furtherance of the work provided for in Contract No. AT(30-1)-1293. This permission relates only to such work, other than that provided for in Contract No. AT(30-1)-1293, as is not otherwise to be performed for the Commission or for Commission contractors or subcontractors in furtherance of their Commission-connected agreements. The work covered by this permission is hereinafter in this Letter referred to as "outside work". You are hereafter in this Letter referred to as the "Contractor".

The following terms and conditions are part of this permission:

1. This permission is terminable by the Commission in whole or in part at any time or times by written notice to the Contractor.
2. These terms and conditions may be supplemented or otherwise amended in any respects by the Commission at any time or times by written notice to the Contractor.
3. The work under Contract No. AT(30-1)-1293 shall at all times, and without any qualification or limitation whatsoever, have the absolute priority in time, effort, and in all other significant respects, over any outside work.

4. The Contractor shall make such reports to the Commission as the Commission may request, and shall otherwise cooperate fully with the Commission, in connection with such analyses or other examinations that the Commission may make to ascertain whether to continue this permission in whole or in part or to amend these terms and conditions in any respects.
5. Except as the Commission may otherwise specifically approve in writing, only the personnel in the Engineering, Drafting, and Machine Shop Departments may be utilized as direct labor for any outside work. There shall be no personnel changes in any of those three departments, nor shall there be any personnel changes in any of the other departments at Hicksville by reason of outside work, excluding dismissal or resignation actions, without specific written approval of the Commission.
6. Beginning with the month of December, 1953, the Contractor shall furnish the Commission each month, on or about the 15th day of each month, a statement containing an itemization and brief description (including estimated completion date) of the outside work that in its estimation, arrived at in good faith, it expects to engage in at any time during the monthly period ending on the 15th day of the following month. Beginning with the statement to be submitted on or about January 15, 1954, each statement shall also itemize and describe briefly all of the outside work in which the Contractor was actually engaged during the monthly period ending on the due date of the report, and shall explain the differences (and the reasons therefor) between the Contractor's estimate of its outside work for the ensuing monthly period given in its previous monthly statement and the actual outside work in which the Contractor was engaged during that monthly period.
7. Prior to beginning any outside work the Contractor shall in each case, in manner and form acceptable to the Commission, record in good faith the nature of the work and its reasonable estimate of (i) the amount of time of the various Hicksville direct labor personnel entailed in the performance, (ii) the costs for said direct labor, (iii) the amount of time of the various Hicksville supervisory personnel entailed in the performance, (iv) the Government-owned equipment to be utilized, and (v) the amount of time of utilization of each item of such equipment. As the outside work progresses the Contractor shall record and evidence, in manner and form acceptable to the Commission, the actual time spent on outside work by the direct labor personnel, and such other data respecting the utilization of personnel, Government-owned equipment, or the Hicksville premises as the Commission may require from time to time. The Contractor shall make such reports to the Commission concerning the estimates or data referred to in this paragraph as the Commission may require. All of the records, reports, and statements referred to in this permission shall be Government-owned and fully covered by the provisions of Contract No. AT(30-1)-1293 pertaining to Government-owned records, reports, and data.

8. It is understood that the outside work is not, among other things, "work under this contract" as referred to in the Patent provisions of Contract No. AT(30-1)-1293. It is further understood that the Contractor shall be liable, and shall account promptly therefor to the satisfaction of the Commission, for all loss or destruction of or damage to Government-owned property in the Contractor's possession or custody by reason of Contract No. AT(30-1)-1293 which occurs by reason of or in connection with any outside work and results from any fault or negligence of the Contractor, its officers, agents, or employees, or others whose fault or negligence is attributable to the Contractor.
9. The Contractor shall, of course, pay directly to whomsoever may be involved, as a matter wholly unrelated to the work and the costs provided for in Contract No. AT(30-1)-1293, for all freight charges and for all materials and supplies connected with its outside work, as well as for all other items of non-Government-owned property which the Contractor desires to use in connection with its outside work. It is understood, however, that nothing in this permission shall be deemed to preclude in any respect the implementation of subdivision (ii) of paragraph 8 of Article V of Contract No. AT(30-1)-1293. It is further understood that the Contractor shall not, without the specific written approval of the Commission, install in the Hicksville premises for its use for any outside work any non-Government-owned equipment.
10. By application of the following system, and at times and in manner approved by the Commission, the Contractor shall pay or credit the Government under Contract No. AT(30-1)-1293 the sums determined as hereinafter provided:
 - a. The following categories of cost for the operation, maintenance, and administration of the entire Hicksville facility are to be distributed as follows:
 - (1) Expense labor costs are to be distributed to each of the Operations, Quality, Engineering Overhead, Administrative and General Overhead, and Security Departments based on the respective numbers of expense labor personnel assigned to the said Departments.
 - (2) Payroll costs are to be distributed to each of the Operations*, Quality*, Engineering*, Drafting*, Machine Shop*, Engineering Overhead*, Administrative and General Overhead*, and Security* Departments based on the total wages and salaries (including expense labor) for each of the said Departments.
 - (3) Occupancy costs are to be distributed on the basis of the square footage occupied by each of the Operations, Quality, Engineering, Drafting, Machine Shop, and Administrative and General Overhead Departments.

- (4) Utilities costs are to be distributed as follows: Telephone costs entirely to the Administrative and General Overhead Department, power and light costs 70% to the Operations Department, 20% to the Machine Shop Department, and 10% to the Administrative and General Overhead Department, and water costs 90% to the Operations Department and 10% to the Administrative and General Overhead Department.
- (5) Division Prorate costs, consisting of the management, accounting procurement and other administrative, functions at Bayside pertinent to the Hicksville operation, are to be distributed entirely to the Administrative and General Overhead Department.
- (6) General Plant costs consisting of the following items are to be distributed as follows:
 - (i) Transportation: To be distributed entirely to the Operations Department.
 - (ii) Freight on SF Material: To be distributed entirely to the Operations Department.
 - (iii) Miscellaneous: To be distributed entirely to the Administrative and General Overhead Department.
 - (iv) Travel: To be distributed to the particular Department in which the employee-traveler is employed.
 - (v) Postage and Messenger Service: To be distributed entirely to the Administrative and General Overhead Department.
 - (vi) Moving and Installations: To be distributed to the Department in which the work is performed.
 - (vii) Rental of Equipment: To be distributed to the Department using the equipment.
 - (viii) Other General Items: To be distributed entirely to the Administrative and General Overhead Department.
- (7) Depreciation costs consisting of the following items are to be distributed as follows:
 - (i) Process Equipment: The fixed monthly depreciation charge is \$7,632.00 and is to be distributed entirely to the Operations Department.
 - (ii) Laboratory Equipment: The fixed monthly depreciation charge is \$5,115.00 and is to be distributed entirely to the Quality Department.

- (iii) Shop Equipment: The fixed monthly depreciation charge is \$6,691.00 and is to be distributed entirely to the Machine Shop Department.
 - (iv) Medical Equipment: The fixed monthly depreciation charge is \$3.00 and is to be distributed entirely to the Administrative and General Overhead Department.
 - (v) Motor Vehicles: The fixed monthly depreciation charge is \$51.00 and is to be distributed entirely to the Administrative and General Overhead Department.
 - (vi) Security and Protection: The fixed monthly depreciation charge is \$27.00 and is to be distributed entirely to the Operations Department.
 - (vii) Improvements to Property: The fixed monthly depreciation charge is \$943.00 and is to be distributed entirely to the Administrative and General Overhead Department.
 - (viii) Miscellaneous Equipment: The fixed monthly depreciation charge is \$159.00 and is to be distributed entirely to the Administrative and General Overhead Department.
 - (ix) Furniture and Fixtures: The fixed monthly depreciation charge is \$654.00 and is to be distributed entirely to the Administrative and General Overhead Department.
- (8) Indirect Materials costs are to be distributed to the Department using the material.

(* These are all of the Departments.)

- b. The total of the Engineering Overhead Department costs, consisting of the expense labor and the other various items of cost allocated to that Department pursuant to a. above, is to be ascertained and distributed entirely to the Engineering, Drafting, and Machine Shop Departments on the basis of the respective total, for each of those Departments, of all the labor costs (not referred to in a. above) thereof
- c. The total of the Administrative and General Overhead Department costs, consisting of the expense labor and the various items of cost allocated to that Department pursuant to a. above, is to be ascertained and distributed entirely to the Operations, Quality, Engineering Drafting, Machine Shop, and Security Departments based on the respective total, for each of those Departments, of all the labor costs thereof (that is, those referred to and those not referred to in a. above) plus the other various items of cost allocated to said Department pursuant to a. above plus (with respect to the Engineering, Drafting,

and Machine Shop Departments) the items of cost allocated to said Department pursuant to b. above.

- d. With respect to each of the Engineering, Drafting, and Machine Shop Departments, the total of the costs allocated to said Department, consisting of all the labor costs (not referred to in a. above) plus all of the costs allocated pursuant to a. through c. above, is to be ascertained; from that total the total amount of the Department's direct labor salaries and wages is to be subtracted.
- e. With respect to each of the Engineering, Drafting, and Machine Shop Departments, the amount last determined pursuant to d. above is to be multiplied by a fraction the numerator of which is the total of the Department's direct labor wages and salaries allocated for the time of said labor spent on outside work and the denominator of which is the total of the Department's direct labor wages and salaries. The three resulting amounts, plus the direct labor wages and salaries allocated for the time of said labor, in each of the three said Departments, spent on outside work, are the sums to be due from the Contractor.
- f. All distributions and allocations referred to in this permission shall, of course, be subject to the approval of the Commission.
- g. All amounts to be paid or credited to the Government pursuant to this permission shall be so paid or credited as and when determined by the Commission. Pending the ascertainment and determination of the actual sums due under this permission, which shall be effected at time or times set by the Commission, the Contractor shall pay or credit the Government, as requested by the Commission, on the basis of provisional rates or sums established by the Commission for the purpose; all such provisional rates or sums shall subsequently be promptly adjusted to accord with the actual sums due.
- h. The Contractor shall pay directly, or pay or credit the Government, as the Commission requests, for all long distance telephone calls, telegrams, and travel of personnel, relating to the outside work, and for such other items of expense relating to outside work as the Commission may find should properly be covered by this subdivision h. Among other things, the Contractor shall, under this subdivision h., pay, or credit the Government with, all expenses relating to Workmen's Compensation Insurance which are over and above those which would have been incurred or paid, and reimbursable under Contract No. AT(30-1)-12 if this permission had not been granted.
- i. All disputes under or in connection with this permission shall be resolved pursuant to the provisions of Article XIV of Contract No. AT(30-1)-1293.

September 1, 1953

Copies 1 and 2 of this Letter are for your execution and prompt return to this Office; Copy 3 is for your retention.

Very truly yours,

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

H. E. Fry

H. E. FRY
MANAGER
NEW YORK OPERATIONS OFFICE

Agreed:

SYLVANIA ELECTRIC PRODUCTS, INC.

By: *W. E. Kingston*

Title: *General Manager,
Atomic Energy Division*

B

This document consists of 3 pages.
No. 2 of 12 copies. Series R.

CONTRACT No. AT(30-1)-1293.

AMENDMENT No. 2

CONTRACTOR AND ADDRESS:

SYLVANIA ELECTRIC PRODUCTS, INC.,
1740 Broadway,
New York, New York.

AMENDMENT FOR:

EXTENSION OF TERM TO OCTOBER 31, 1953.

THIS AMENDMENT, entered into the 29th day of September, 1953, by and between THE UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC. (hereinafter referred to as the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December, 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to amend said Contract, as heretofore amended, as hereinafter provided; and

WHEREAS, this Amendment is authorized by law, including the Atomic Energy Act of 1946, as amended;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore amended, is hereby amended further in the following respects:

1. In paragraph 1 of Article I, "September 30, 1953" is changed to "October 31, 1953".
2. In paragraph 1 of Article III, "September 30, 1953" is changed to "October 31, 1953".
3. In 1a of Article IV, "Amendment No. 1", appearing in two places, is changed to "Amendments Nos. 1 and 2".
4. In 6b of Article IV, "Amendment No. 1", wherever it appears, is changed to "Amendments Nos. 1 and 2".

IN WITNESS WHEREOF, the parties have executed this Amendment the day and year first above written.

THE UNITED STATES OF AMERICA

Witnesses to execution
by the Contractor:

By: UNITED STATES ATOMIC ENERGY COMMISSION

Jeune L. Brouters
30-14 153 St. Flushing, N.Y.

Fredrick M. Belman
FREDRICK M. BELMAN
Contracting Officer

Beatrice E. Kalmus
199-04 24 Road
Bayside, N.Y.

SYLVANIA ELECTRIC PRODUCTS, INC.

By: J. B. Merrill
Title: Vice Pres

I, William F. Rieger, certify that I am the Assistant Secretary of the corporation named as Contractor herein; that J. B. Merrill who signed this Amendment on behalf of the Contractor was then Vice President of said corporation; that said Amendment was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal of said corporation.

William F. Rieger

(Corporate Seal)

C

This document consists of 6 pages.
No. 2 of 11 copies. Series A.

CONTRACT No. AT(30-1)-1293.

AMENDMENT No. 3

CONTRACTOR AND ADDRESS:

SYLVANIA ELECTRIC PRODUCTS, INC.
1740 Broadway,
New York, New York.

AMENDMENT FOR:

EXTENSION OF TERM TO NOVEMBER 30, 1953.

THIS AMENDMENT, entered into the 29th day of October, 1953, by and between THE UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC. (hereinafter referred to as the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December, 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to amend said Contract, as heretofore amended, as hereinafter provided; and

WHEREAS, this Amendment is authorized by law, including the Atomic Energy Act of 1946, as amended;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore amended, is hereby amended further in the following respects:

1. In paragraph 1 of Article I, "October 31, 1953" is changed to "November 30, 1953".
2. In paragraph 1 of Article III, "October 31, 1953" is changed to "November 30, 1953".
3. In 1a of Article IV, delete "Amendments Nos. 1 and 2", appearing in two places, and substitute therefor "Amendments Nos. 1, 2, and 3".
4. In 6b of Article IV, delete "Amendments Nos. 1 and 2", wherever it appears, and substitute therefor "Amendments Nos. 1, 2, and 3".

IN WITNESS WHEREOF, the parties have executed this Amendment the day and year first above written.

THE UNITED STATES OF AMERICA

Witnesses to execution
by the Contractor:

By: UNITED STATES ATOMIC ENERGY COMMISSION

Jennie K. Brathers
30-14 153 St. - Flushing, N.Y.

Frederick M. Belmore

FREDERICK M. BELMORE
Contracting Officer

Bertice E. Kalms
199-04 24 Rd., Bayside

SYLVANIA ELECTRIC PRODUCTS, INC.

By: W. E. Augustus

Title: General Manager, Atomic Energy Division

I, William F. Rieger, certify that I am the Assistant Secretary of the corporation named as Contractor herein; that W. C. Kingston who signed this Amendment on behalf of the Contractor was then Gen. Mgr. Atomic Energy Division of said corporation; that said Amendment was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal of said corporation.

William F. Rieger

(Corporate Seal)

D

This document consists of 3 pages.
No. 2 of // copies. Series A.

CONTRACT No. AT(30-1)-1293.

AMENDMENT No. 4

CONTRACTOR AND ADDRESS:

SYLVANIA ELECTRIC PRODUCTS, INC.,
1740 Broadway,
New York, New York.

AMENDMENT FOR:

EXTENSION OF TERM TO DECEMBER 31, 1953.

CONTRACT No. AT(30-1)-1293, Amendment No. 4.

THIS AMENDMENT, entered into the 25th day of November, 1953, by and between THE UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC. (hereinafter referred to as the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December, 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to amend said Contract, as heretofore amended, as hereinafter provided; and

WHEREAS, this Amendment is authorized by law, including the Atomic Energy Act of 1946, as amended;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore amended, is hereby amended further in the following respects:

1. In paragraph 1 of Article I, "November 30, 1953" is changed to "December 31, 1953".
2. In paragraph 1 of Article III, "November 30, 1953" is changed to "December 31, 1953".
3. In 1a of Article IV, delete "Amendments Nos. 1, 2, and 3", appearing in two places, and substitute therefor "Amendments Nos. 1, 2, 3, and 4".
4. In 6b of Article IV, delete "Amendments Nos. 1, 2, and 3", wherever it appears, and substitute therefor "Amendments Nos. 1, 2, 3, and 4".

IN WITNESS WHEREOF, the parties have executed this Amendment the day and year first above written.

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

Frederick M. Belmore
FREDERICK M. BELMORE
Contracting Officer

SYLVANIA ELECTRIC PRODUCTS, INC.

By: W. E. Kingster
Title: General Manager, Atomic Energy Division

Witnesses to execution
by the Contractor:

Jennie K. Broutcher
30-14 153 St. - Flushing, N.Y.

Beatrice E. Kalmus
199-04 24 Rd. Bayside N.Y.

I, William F. Rueger, certify that I am the Assistant Secretary of the corporation named as Contractor herein; that W. E. Kingston who signed this Amendment on behalf of the Contractor was then President Atomic Energy Div. of said corporation; that said Amendment was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal of said corporation.

William F. Rueger

(Corporate Seal)

E

~~SECRET~~
~~SECURITY INFORMATION~~

This document consists of 1 pages

No. 1 of 2 Copies, Series B

3-7-89
u/g

John E. Gray

December 2, 1953

UNCLASSIFIED

SR-TT-781

Paul J. Hagelston

Responsive Record 28

SYLVANIA FLAT PLATE PROGRAM (u)

~~Restricted Data~~

SYMBOL: TT:PJH:vw

~~This document contains restricted data as defined in the Atomic Energy Act of 1946. Its transmission or the disclosure of its contents to an unauthorized person is prohibited.~~

I recommend that the direction of the Sylvania Program be immediately changed from 100% emphasis on flat plates via powder metallurgy to that of nickel plating and aluminum cladding wrought metal cores. In the interest of pursuing the powder metallurgical approach as a long range effort -- which I am convinced is the proper perspective -- such work should be continued on a greatly reduced basis. It is urged that the Steering Committee request an immediate proposal from Sylvania which will reflect such changes. Work on powder metallurgical flat plate elements should not proceed at a rate greater than, say, 10% of the total Sylvania effort.

A summary of the background highlights on which the above recommendations are made follows:

1. Program A -- the fabrication of twenty plates for MTR tests -- has come up with 34 plates as of this writing. Five of these are now under consideration for MTR tests but it is not yet certain whether any are suitable for such testing.
2. These plates were to be made by any method at all and by July 1, 1953. We are now going into the sixth month behind schedule.
3. The process used to fabricate the above plates bears little resemblance to processes under consideration for production type elements.
4. Latest Sylvania thoughts postulate the "know-how" to produce up to thirty full size plates per day in Fiscal Year 1955. I emphasize that this date represents a "know-how" date and not a date on which equipment and plant are ready to go. Even if the plant and equipment could be ready to go at this date, please refer to 5 below.
5. Requirements, depending on various basic assumptions, range from 200 to 700 per day full length elements production rate by early Fiscal Year 1955.

Distribution: Cy 1A - Addressee Cy 4A - Mat. Files
Cy 2A - J. V. Levy Cy 5A - " Chrono
Cy 3A - R. O. Hutchison Cys 6A, 7A, 8A - T&M Rdg. Files

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date 5-5-04	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: Vernon T. Boudreau	2. Classification changed to:
2nd Review Date 5-6-04	3. Classification Canceled
Authority: ADD	4. Other: CG-NMP-2, 9/00
Name: Jayne B. Slack	

UNCLASSIFIED

SROO Response to
FOIA (SR) - 04-028

③ Classification Canceled

F

This document consists of 1 pages.
 No. 1 of 7 copies. Files 2.

WSRC DECLASSIFICATION REVIEW	
1st Review Date: <u>4/26/04</u>	Determination (Circle Number)
Authority: <input checked="" type="checkbox"/> ADC <input type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>R. Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/04</u>	3. Classification Cancelled
Authority: <u>ADD</u>	4. Other: <u>CG-NMP-2 9/00</u>
Name: <u>R. Koltz</u>	

AMENDMENT No. 1 TO APPENDIX "B",
 DATED: DECEMBER 7, 1953,
 TO CONTRACT No. AT(30-1)-1293
 DATED DECEMBER 10, 1951.

SR 847

This Amendment No. 1 describes the scope of work under Contract No. AT(30-1)-1293 for the period July 1, 1953 through June 30, 1954. Said scope of work follows:

- A. Produce the balance of 5,000 slugs for Hanford evaluation (about 1,000 slugs were produced for this purpose during fiscal year 1953).
- ✓ B. Demonstrate that the powder metallurgy process can be controlled by improving and sustaining the yield to over 95% with the existing facilities.
- ✓ C. Determine the amount and origin of nitrogen in each step of the process and investigate the means of maintaining nitrogen content of finished slugs within specifications.
- ✓ D. Accumulate, correlate and report data gained in performing work described in Items A, B and C to establish optimum conditions for producing powder metallurgy slugs with a high yield.
- ✓ E. On the basis of satisfactory performance of Items A to D, inclusive, at Hicksville and successful experimental work at Bayside, investigate the means and techniques necessary to produce other shapes by powder metallurgy process.

Accepted:

W. R. Ruppert

SYLVANIA ELECTRIC PRODUCTS, INC.

By: Date: January 13, 1954

Title: General Manager
Atomic Energy Division

G

33
SM
This document consists of 3 pages.
No. 2 of 16 copies. Series A.

MODIFICATION No. 6
SUPPLEMENTAL AGREEMENT TO
CONTRACT No. AT(30-1)-1293

MODIFICATION No. 6

CONTRACTOR AND ADDRESS:

SYLVANIA ELECTRIC PRODUCTS, INC.,
1740 Broadway,
New York, New York.

SUPPLEMENTAL AGREEMENT TO:

COVER CONTRACTOR COSTS FOR PROCUREMENT
AND ACCOUNTING SERVICES AND FOR
MANAGEMENT SERVICES AT BAYSIDE.

MODIFICATION No. 6
SUPPLEMENTAL AGREEMENT TO
CONTRACT No. AT(30-1)-1293

THIS SUPPLEMENTAL AGREEMENT, entered into the 17th day of March, 1954, by and between THE UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC. (hereinafter referred to as the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December, 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to modify said Contract, as heretofore modified, as hereinafter provided; and

WHEREAS, this Supplemental Agreement is authorized by law, including the Atomic Energy Act of 1946, as amended;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore modified, is hereby modified further in the following respects:

Effective December 10, 1951, the present text of subdivision s. of paragraph 3 of Article IV is redesignated subdivision t. and the following new subdivision s. is added to said paragraph 3:

"s. Sums which the parties mutually agree in writing represent the Contractor's cost for procurement and accounting services fairly allocable to the work under this Contract with respect to periods subsequent to June 30, 1952, and sums which the parties mutually agree in writing represent the Contractor's cost for management services at Bayside, Long Island fairly allocable to the work under this Contract."

IN WITNESS WHEREOF, the parties have executed this Supplemental Agreement the day and year first above written.

Witnesses to execution by
the Contractor:

Jennie L. Brouters
30-14 153 St.
Flushing, N.Y.
Beatrice E. Kalms
199-04 24 Rd. Bayside

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

Frederick M. Belmont

FREDERICK M. BELMONT
Contracting

SYLVANIA ELECTRIC PRODUCTS, INC.

By: W. E. Kingston

Title: General Manager

Atomic Energy Division

I, William F. Rueger, certify that I am
the Assistant Secretary of the corporation named as Contractor
herein; that W. C. Kingston who signed this Supplemental
Agreement on behalf of the Contractor was then General Manager, Atomic Energy
of said corporation; that said Supplemental Agreement was duly signed for
and on behalf of said corporation by authority of its governing body and is
within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal
of said corporation.

William F. Rueger

(Corporate Seal)

H

This document consists of 4 pages.
No. 2 of 6 copies. Series 9.

MODIFICATION No. 7
SUPPLEMENTAL AGREEMENT TO
CONTRACT No. AT(30-1)-1293

MODIFICATION No. 7

CONTRACTOR AND ADDRESS:

SYLVANIA ELECTRIC PRODUCTS, INC.,
P. O. Box 59,
Bayside, New York.

SUPPLEMENTAL AGREEMENT TO:

EXTEND THE TERM TO JULY 31, 1954.

Increase cost 99,500

THIS SUPPLEMENTAL AGREEMENT, entered into the 8th day of June, 1954, by and between THE UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC. (hereinafter referred to as the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December, 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to modify said Contract, as heretofore modified, as hereinafter provided; and

WHEREAS, this Supplemental Agreement is authorized by law, including the Atomic Energy Act of 1946, as amended;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore modified, is hereby modified further in the following respects:

1. The following new subdivision c is added to paragraph 1 of Article I:

"c. Promptly upon the execution of Modification No. 7 to this Contract, the Contractor shall take all practical steps toward conclusion of its performance of the work provided for in subdivision b above and toward commencement of the work referred to in the sentence next following. Beginning as soon as is reasonably possible, and in any event by July 1, 1954, and continuing until the end of July, 1954, the Contractor shall conduct under this Contract only such studies, experimental investigations and other research and development work as is authorized in writing by the Commission; said writings may or may not be in the form of formal modifications to this Contract."

2. In paragraph 1 of Article III, "June 30, 1954" is changed to "July 31, 1954".

3. In subdivision a of paragraph 1 of Article IV, the punctuation mark at the end of the present text is deleted and the following is added immediately thereafter: ", and such fixed fee with respect to the additional work and services provided for in subdivision c of paragraph 1 of Article I as the Contractor and the Commission mutually agree upon in writing prior to July 10, 1954, or, failing such agreement, as is determined pursuant to Article XIV."

4. In subdivision b(1) of paragraph 6 of Article IV, "One Million Ninety-Nine Thousand Five Hundred Dollars (\$1,099,500.00)" is substituted for "One Million Dollars (\$1,000,000.00)", and "subdivisions b and c of paragraph 1 of Article I" is substituted for "subdivision b of paragraph 1 of Article I."

5. Article XXXIX is deleted and the following is substituted:

"ARTICLE XXXIX - EXAMINATION OF RECORDS

1. The Contractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall have access to and the right to examine any directly pertinent books, documents, papers, and records of the Contractor involving transactions related to this Contract until the expiration of three (3) years after final payment under this Contract unless the Commission authorizes their prior disposition.

2. The Contractor further agrees to include in all subcontracts hereunder a provision to the effect that the subcontractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall have access to and the right to examine any directly pertinent books, documents, papers, and records of such subcontractor involving transactions related to the subcontract until the expiration of three (3) years after final payment under the subcontract. The term subcontract as used herein means any purchase order or agreement to perform all or any part of the work or to make or furnish any materials required for the performance of this Contract, but does not include (i) purchase orders not exceeding One Thousand Dollars (\$1,000.00), (ii) subcontracts or purchase orders for public utility services at rates established for uniform applicability to the general public, or (iii) subcontracts or purchase orders for general inventory items not specifically identifiable with the work under this Contract.

3. Nothing in this Contract shall be deemed to preclude an audit by the General Accounting Office of any transaction under this Contract."

IN WITNESS WHEREOF, the parties have executed this Supplemental Agreement the day and year first above written.

Witnesses to execution by
the Contractor:

Janice L. Brouters
30-14 153 St. - Flushing, N.Y.

Beatrice E. Kaluus
199-04 24 Rd., Bayside, N.Y.

THE UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

J. C. Clarke
J. C. CLARKE
Contracting Officer
SYLVANIA ELECTRIC PRODUCTS, INC.

By: W. E. Kingston
W. E. Kingston
Title: General Manager, Atomic Energy Division

William F. Rueger WFR

I, ~~W. C. Kingston~~ certify that I am the

~~Assistant Secretary~~ of the corporation named as Contractor herein;

that ~~W. C. Kingston~~ who signed this Supplemental Agreement

on behalf of the Contractor was then ~~General Manager, Atomic~~

~~Energy Division~~ of said corporation; that said Supplemental Agreement

was duly signed for and on behalf of said corporation by authority of its

governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and the seal
of said corporation.

William F. Rueger

(Corporate Seal)

Ground Rules for Sylvania's Outside Work done at Hicksville under the 1293 contract.

The direct charges are:

Direct Materials
Direct Labor in the Engineering, drafting and shop departments including travel time of these employees exclusive of overtime premiums.
Requisitions from stores at average price
Freight out - *freight in on materials from Town, etc.*
Overhead on the direct labor employees in the Engineering, Drafting, and Shop Departments

The following ground rules shall apply to overhead amounts and departments:

Payroll Costs - Distributed on the basis of total payroll in each department.

Occupancy Costs - Distributed on the basis of square feet occupied by each department.

Utilities - Distributed on the following basis:
Telephone to Administrative Expense
Power & Light - 70% to operations, 20% to shop & 10% to Administration
Water - 90% to operations and 10% to Administration

General Plant - Distributed to departments by type of individual expense

Indirect Material - Distributed to departments on a usage basis.

Depreciation - Distributed to departments on monthly depreciation rates.

Engineering O/H - Consisting of 11 supervisory and administrative employees assigned to Engineering, drafting and shop departments. Distributed on the basis of total labor in each of the three departments.

Administrative and General Expenses - Includes Personnel, Administration and Division Management. Distributed on the basis of total labor and overhead charges in each department.

~~SECRET~~
SYLVANIA ELECTRIC PRODUCTS INC.



UNCLASSIFIED

June 17, 1954

Atomic Energy Division
BAYSIDE, NEW YORK
DCF 4986

DEPARTMENT OF ENERGY - SAVANNAH RIVER PLANT
1st Review Date: 4/10/03
Authority: EADDC 17 ADD
Name: *Blaise*
2nd Review Date: 4/10/03
Authority: ADD 4/10/03
Name: *James J. Parker*
Determination (Circle Number)
1. Classification Unchanged
2. Classification changed to:
3. Classification Canceled
4. Other: *E. W. 1.2*

Mr. Curtis A. Nelson, Manager
U. S. Atomic Energy Commission
Savannah River Operations Office
P. O. Box A,
Augusta, Ga.

This document is 3 pages.
No. 1 of 13 copies, Series A

Dear Mr. Nelson:

With reference to Mr. Squires' invitation of May 28th, and a meeting held at the New York Operations Office on June 14th, Sylvania is pleased to submit three alternate proposals as follows:

- Proposal A - 1. The canning of 50,000 enriched aluminum-uranium slugs, and
- 2. The design and construction of an automatic canning machine, and
- 3. Interim development programs.

Proposal B - Projects 1 and 2

Proposal C - Project 1 only.

Our estimate assumes a CPFF contract covering a ten month period from July 1, 1954 through April 30, 1955, provided the automatic canning machine is included. Otherwise the canning program will take eleven months. A description of each project and cost estimates for the three alternate proposals are enclosed, together with a summary and Sylvania's recommendation.

We wish to call your attention to the comparison of cost for the machine and slugs in the three alternate proposals. In Proposal B the cost of the machine is estimated at \$255,920 but the actual cash outlay above the cost of the slug program will be only \$131,232. Conversely, the 50,000 slugs will cost \$583,000 under Proposal C but only \$493,802 if the other two projects are also authorized.

Also, the interim program can be accomplished for only \$27,992 above the cost of Program A (slugs plus machine). Your attention is invited to the chart in the technical detail which graphically demonstrates the use of manpower on the slug program. You will note that there is a set-up period of three months building up to a steady state (full employment) operation. We already have the specific employees for this period. Obviously, considering clearance and training costs for new employees, it is economically sound to retain the present work force. Thus, we propose to perform a large portion of the interim work in the set-up period and take advantage

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INCANDESCENT LAMPS • RADIO TUBES • FLUORESCENT LAMPS AND FIXTURES
TELEVISION PICTURE TUBES • PHOTOFLASH LAMPS • RADIO AND TELEVISION SETS

~~SECRET~~

Mr. Curtis A. Nelson

-2-

June 17, 1954

not concerned that the production employees held on this point are especially qualified also for proposed interim work

of the available technical personnel. Although we have recommended a series of objectives we wish to have the benefit of your advice as to which of the objectives are most important or what alternate use of manpower you may suggest.

We also wish to bring to your attention that we have included in Proposal A an interim program commencing in February to produce and can several hundred slugs from Horizons powder. We include this because we believe that the thorium hot pressing studies at Bayside will be sufficiently advanced at that time to permit this number of slugs to be hot pressed at Hicksville. If you prefer, the funding of this portion of the interim program can be deferred to a later date and Proposal A reduced by \$35,000, the estimated cost of this work.

Mr. Squires has requested our estimate for 25,000 slugs. Under Proposal A this would be \$370,000 and \$454,000 under Proposal B. Completion of 25,000 will be made during the last week of January 1955.

Mr. Slaton requested information on our materials inventory. This now stands at \$32,000 but we expect to reduce this to about \$10,000 by May 1955. Of the \$22,000 difference we now anticipate that \$15,000 will be declared surplus. Under the AEC integrated contract procedure this would appear as a cost during FY 1955 but we have not included it in our cost estimate.

We understand our existing Contract AT(30-1)-1293 will be transferred to the jurisdiction of the Savannah River Operations Office, and that these projects can be conducted under that contract. We have already been authorized by the New York Operations Office by Modification No. 7 to Contract 1293, and by letter dated June 17, 1954, to proceed with the three projects simultaneously. This authorization extends the contract through July 31, 1954 and adds \$99,500 to the face value. It is our understanding that these funds are to be applied exclusively to these three projects.

what is the purpose of this money?

In answer to your request we estimate a cost of \$44,000 for the first two months and \$8,000 per month thereafter to put the Hicksville plant in standby service. However, we wish to emphasize that Sylvania would be very reluctant to enter into a contract with the Commission on this basis. We feel that it is not in our best interest to allow the plant to remain idle while it is still Sylvania property.

alternatively Sylvania

~~SECRET~~

~~SECRET~~

Mr. Curtis A. Nelson

-3-

June 17, 1954

In the interest of low-cost operation and efficient use of manpower, we urge that you accept Proposal A. For the same reason we trust you will continue to permit us to undertake other work (both Government and commercial) with the understanding, of course, that the Savannah River projects will be given priority.

*and a full payment, since
in reduced costs usually from*

Very truly yours,

SYLVANIA ELECTRIC PRODUCTS INC.

E. S. Norris

E. S. Norris
Manager of Control Department

ESN:bek
enc.

Distribution: C. A. Nelson - 2
L. Squires - 2
F. K. Pittman - 2
Manager NYOO - 1

~~SECRET~~

USDOE 017564

A

Modification No. 8
Supplemental Agreement to
Contract No. AT(30-1)-1293

Modification No. 8

CONTRACTOR:

Sylvania Electric Products, Inc.
Bayside, Long Island, New York

SUPPLEMENTAL AGREEMENT TO:

Increase Scope of Work to
include Canning of Uranium
Alloy Slugs for Savannah River
Operations Office and to extend
term to May 31, 1955

Recapitulation

Previous Direct Cost	\$ 4,199,350
This Modification	<u>562,463</u>
New Direct Cost	4,761,813
Previous Fixed Fee	172,150
This Modification	<u>37,190</u>
New Fixed Fee	209,340
 TOTAL OBLIGATION	 \$ <u>4,971,153</u>

This supplemental agreement, entered into as of the first day of July, 1954, by and between the United States of America (hereinafter referred to as the "Government"), as represented by the United States Atomic Energy Commission (hereinafter referred to as the "Commission"), and Sylvania Electric Products, Inc. (hereinafter referred to as the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to modify said Contract, as heretofore modified, as hereinafter provided; and

WHEREAS, this supplemental agreement is authorized by law, including the Atomic Energy Act of 1946, as amended;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore modified, is hereby modified further in the following respects:

1. the following new subdivision d is added to paragraph 1 of Article I:

"d. (i) Promptly upon the execution of Modification No. 8 to this contract, the Contractor shall take all practical steps toward conclusion of the work as authorized by subdivision c above and toward the commencement of the work referred to next following. Beginning as soon as reasonably possible and continuing until the work herein described is completed, the Contractor, in accordance with the letter of award, dated July 6, 1954, from C. A. Nelson, Manager, Savannah River Operations Office, United States Atomic Energy Commission, addressed to E. S. Norris, Manager of Control Department of the Contractor, as herein modified, shall undertake the procurement and fabrication of the necessary equipment, the construction of security fences, alarm systems and vaults, and the canning of uranium alloy slugs, all in accordance with the schedule applicable to Proposal C contained in the Contractor's letter dated June 17, 1954, addressed to C. A. Nelson, Manager, Savannah River Operations Office, United States Atomic Energy Commission, and signed by E. S. Norris on behalf of the Contractor, using the pressure bonding technique developed at the Hicksville, Long Island, New York, Plant of the Contractor and improved modifications which may be realized in the course of the work, including the manufacturing, testing, inspection and delivery of the slugs, canned in aluminum in accordance with the specifications referred to in the aforementioned letter from C. A. Nelson, dated July 6, 1954, or as modified by mutual agreement. The aforementioned letters, addressed respectively to E. S. Norris and C. A. Nelson, are made a part hereof by reference.

"(ii) The necessary aluminum cans, caps and alloy slugs will be furnished to the Contractor by the Commission without cost to the Contractor."

2. In paragraph 1 of Article III, "July 31, 1954," is changed to "May 31, 1955".

3. Subdivision a of paragraph 1 of Article IV is changed to read as follows:

"a. A fixed fee of one hundred seventy-two thousand one hundred fifty dollars (\$172,150) with respect to all of the work and services provided for prior to the work authorized in modification Nos. 7 and 8, and a fixed fee of thirty-seven thousand one hundred ninety dollars (\$37,190) with respect to all of the work and services provided for in subdivisions c and d of paragraph 1 of Article I, as authorized in modification Nos. 7 and 8."

4. Effective July 1, 1954, subdivision s of paragraph 3 of Article IV is changed to read as follows:

"s. A provisional payment of \$7,000 per month, beginning with the month of July 1954, for procurement, administrative, and accounting services (hereafter referred to as Division Prorate) fairly allocable to the work under this contract. The provisional payment shall be subject to adjustment to actual cost determined at the completion of the scope of work covered under Article I, or June 30, 1955, whichever shall occur earlier. The actual cost of Division Prorate shall be allocated to this contract in the following manner:

"(i) The total cost of work performed during the period of this contract (or the 12-month period ending June 30, 1955, whichever applies) divided by the total cost of all work performed by the Contractor's Atomic Energy Division for the same period equals the percentage this contract work bears to all Atomic Energy Division work.

"(ii) The percentage determined in (i) above times the actual cost of Division Prorate for the period equals the Division Prorate cost allocable to this contract.

"If the provisional payments exceed the actual cost of Division Prorate as determined above, the excess of such payments over actual cost shall be refunded to the Commission. If actual cost exceeds the provisional payments, an additional payment for such excess shall be made to the Contractor."

5. Effective July 1, 1954, delete subdivision r of paragraph 4 of Article IV and insert the following new subdivisions:

"r. Bad debts, including expenses of collection, and provision for bad debts arising out of the Contractor's own business.

"s. Bonuses, and similar compensation under any other name, which are not consistent with a practice so established as to constitute a condition of employment.

"t. General research, except as specifically provided for in this contract.

"u. Legal, accounting, and consulting services, and related expenses incurred in connection with organization or reorganization, prosecution of patent infringement litigation, defense of anti-trust suits, and the prosecution of claims against the United States.

"v. Depreciation or depletion in excess of that based on expected useful life and cost of acquisition of the related fixed assets less estimated salvage value at the end of the expected useful life. Amortization or depreciation of unrealized appreciation of values of assets or of assets fully amortized or depreciated on the Contractor's books of account is unallowable. In respect to emergency facilities covered by Certificates of Necessity, acceleration of depreciation in excess of that based on their reasonable economic life is unallowable.

"w. Maintenance, depreciation, and other costs incidental to the Contractor's excess facilities (including machinery and equipment) other than reasonable standby facilities.

"x. Premiums for insurance on the lives of directors, officers, proprietors, or other persons, where the Contractor is the beneficiary directly or indirectly.

"y. Selling and distribution activities and related expenses not applicable to the contract products or services.

"z. Taxes and expenses in connection with financing, refinancing, or refunding operations, including the listing of securities on exchanges."

6. Effective July 1, 1954, subdivision a of paragraph 5 of Article IV is changed to read as follows:

"a. Payment of the Fixed Fee. Payment of ninety per cent (90%) of the fixed fee of one hundred seventy-two thousand one hundred fifty dollars (\$172,150) set forth in subdivision a of paragraph 1 of this Article shall be made by the Government monthly in amounts based on the percentage

of the completion of the work hereunder, as determined from estimates submitted to and approved by the Commission. Payment of the fixed fee of thirty-seven thousand one hundred ninety dollars (\$37,190) set forth in subdivision a of paragraph 1 of this Article shall be made in monthly installments as follows: ninety per cent (90%) of the monthly fixed fee (determined as one-eleventh of the fixed fee of thirty-seven thousand one hundred ninety dollars (\$37,190)) shall become due and payable on the last day of each month beginning July 1954.

7. Effective July 1, 1954, change subdivision b of paragraph 5 of Article IV to read as follows:

"b. (i) Monthly Payments. The Government will make reimbursement payments for the allowable costs set forth in paragraph 3 of this Article monthly, or at the discretion of the Commission, at more frequent intervals.

"(ii) Review and Approval of Costs Incurred. The Contractor shall prepare and submit annually, or for such other periods designated by the Contracting Officer, a certified voucher for the total of net expenditures accrued for the period covered by the voucher, and the Commission, after audit and appropriate adjustment, will approve such voucher. This approval by the Commission will constitute an acknowledgment by the Commission that the net costs incurred were allowable under the contract and that they had been recorded in the accounts maintained by the Contractor in accordance with Commission accounting policies, but will not relieve the Contractor of responsibility for the Commission's assets in its care, for appropriate subsequent adjustments, or for errors later becoming known to the Commission."

8. In subdivision b(1) of paragraph 6 of Article IV "one million six hundred ninety-nine thousand one hundred fifty-three dollars (\$1,699,153)" is substituted for "one million ninety-nine thousand five hundred dollars (\$1,099,500)" and "subdivisions b, c and d" are substituted for "subdivisions b and c."

9. Article XIV of said Contract is deleted and a new Article XIV to read as follows is substituted therefor:

"ARTICLE XIV - DISPUTES"

"Except as otherwise specifically provided in this contract, any dispute concerning a question of fact arising under or in connection with this contract shall be submitted in writing to and shall be decided by the Manager of the Commission's Savannah River Operations Office, or his duly authorized representative, who shall reduce his decision to writing and mail a copy of said decision to the Contractor; said decision shall be final and conclusive on the parties hereto, subject to the right of the Contractor to appeal, as provided for in the sentence next following. Within thirty days from the mailing of said decision, the Contractor may appeal, in writing,

to the Commission, whose written decision thereon, or that of its duly authorized representative, representatives, or Board (but not including the Commission representative mentioned in the first sentence of this Article), duly authorized to determine such an appeal, shall be final and conclusive on the parties hereto, unless such decision is determined by a court of competent jurisdiction to have been fraudulent, capricious or arbitrary or so grossly erroneous as necessarily to imply bad faith, or not to be supported by substantial evidence. In the meantime, the Contractor shall diligently proceed with the work unless otherwise directed by the Contracting Officer."

10. The words "Article XXXIX" as they presently appear in this contract and in paragraph 5 of Modification No. 7 of this contract are deleted and the words "Article XXXIV" are substituted therefor.

11. Immediately following Article XXXVIII add a new Article XXXIX to read as follows:

"ARTICLE XXXIX - INSPECTION AND ACCEPTANCE"

"Final inspection and acceptance by the Commission of all uranium alloy slugs, canned by the Contractor pursuant to subdivision d of paragraph 1 of Article I, shall be performed by E. I. du Pont de Nemours and Company as the Commission's authorized representative, at the Commission's Savannah River Plant."

12. Immediately following Article XXXIX add a new Article XL to read as follows:

"ARTICLE XL - CHANGES"

"(a) Changes and Adjustment of Fee. The Contracting Officer may at any time and without notice to the sureties, if any, issue written direction requiring additions to the work covered by this contract or directing the omission of or variations in such work. If any such direction results in a material increase or decrease in the scope of the work described in Article I, paragraph 1, subdivision c and d, an equitable adjustment of the fixed fee shall be agreed upon by the parties and the contract shall be modified accordingly in writing. Any claim by the Contractor for an adjustment under this Article must be asserted in writing within thirty (30) days from the date of receipt by the Contractor of the notification of change unless the Contracting Officer grants a further period of time. A failure to agree on an equitable adjustment under this Article shall be deemed to be a dispute within the meaning of the Article entitled "Disputes."

"(b) Work to Continue. Nothing contained in this Article shall excuse the Contractor from proceeding with the prosecution of the work in accordance with the requirements of any direction hereunder."

IN WITNESS WHEREOF, the parties have executed this Supplemental Agreement the day and year first above written:

UNITED STATES OF AMERICA

BY *Paul H. Wilson*
Manager, Savannah River Operations Office
(Title)

United States Atomic Energy Commission
SYLVANIA ELECTRIC PRODUCTS, INC.

By *W. E. Kingston*
General Manager, Atomic Energy Division
(Title)

Witnesses as to signature of Contractor

Jeune K. Brantners
30-14 153 St.
Flushing, N.Y.
(Address)

Beatrice E. Kalms
199.04 24 Road
Bayside 57, N.Y.
(Address)

I, *J. M. Porter*, certify that I am the
Asst. Secretary of the corporation named as Contractor
herein; that *W. E. Kingston* who signed this
Supplemental Agreement on behalf of the Contractor was then *Gen Mgr.*
Atomic Energy Div of said corporation; that said Supplemental Agreement was
duly signed for and on behalf of said corporation by authority of its
governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and seal of said corporation.

(Corporate Seal)

J. M. Porter

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~~SECRET~~

UNITED STATES
ATOMIC ENERGY COMMISSION
SAVANNAH RIVER OPERATIONS OFFICE
P. O. BOX A
July 6, 1954

July 6, 1954

IN REPLY REFER TO:
SR:T:JVL:JV:10

SR:T:1479

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This document consists of 2 pages
No. 6 of 13 Copies, Series A

Mr. E. S. Norris
Manager of Control Department
Sylvania Electric Products, Inc.
Atomic Energy Division
P.O. Box 59
Bayside, New York

DEPARTMENT OF ENERGY SAVANNAH RIVER OPERATIONS OFFICE	
1st Review Date <u>4/8/63</u>	Determination (Circle Number)
Authority: <u>UADG UADD</u>	1. Classification Unchanged
Name: <u>J. Black</u>	2. Classification changed to:
2nd Review Date <u>4/8/63</u>	<input checked="" type="checkbox"/> 3. Classification Cancelled
Authority: <u>ADD</u>	4. Other: <u>CG-NAP-2</u>
Name: <u>Walter J. Gordon</u>	9.00

Dear Mr. Norris:

~~Unclassified data as defined in its transmittal form. If its content is unauthorized person is prohibited from receiving it.~~

Reference is made to your letter proposal of June 17, 1954, and the discussion between representatives of your company and this office on July 1, 1954. In accordance with the aforementioned discussion, we authorize you to initiate canning of enriched uranium slugs in accordance with the schedule contained in your proposal "C", using the pressure bonding techniques developed at the Hicksville plant and improved modifications which may be realized in the course of the work, including the manufacture, testing, and delivery of the slugs canned in aluminum, in accordance with specifications set forth in letter Squires to Kington, dated May 28, 1954, and subsequent revisions thereto. Canning of the aforementioned slugs will be preceded by the canning of 200 non-enriched alloy slugs, also in accordance with the May 28 letter. The necessary aluminum cans, caps, and alloy slugs, both enriched and non-enriched, will be furnished to Sylvania at no charge by the Commission.

Although we are not accepting any other phase of the proposal at this time, we will give further consideration to the performance of work under your "interim development program." Consideration of this additional work will require that we review our needs with the du Pont Company.

We accept the fee set forth under proposal "C", namely 6% of the estimated cost with the understanding that should we agree that cash advances will be used, as discussed with you, an equitable reduction in the fee will be negotiated.

As agreed during the discussion on July 1, 1954, it is understood that you will review the schedule that you have presented for delivery of the first 25,000 slugs, with the objective of delivering

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E.S. Norris

-2-

SR:T:1479
7/6/54

that number by the end of December 1954, as set forth in letter from Squires to Kingston, dated May 28. In connection with any such improvement of your proposed delivery schedule, will you kindly advise us as to the necessary additions, either in personnel or dies, and the effect on costs.

The du Pont Company will be the authorized Commission representative for the purposes of establishing specifications, inspecting and accepting finished slugs.

Pursuant to your request to undertake other work (both Government and commercial) at the Ricksville site, subject to priority for SR projects, an interim approval is hereby given, pending a study of this matter by this office.

The authorized representative for the purposes of administering this contract in SROC will be Paul J. Hagelston.

We will prepare a supplement to the existing contract providing for the new scope of work, extension of the term of the contract, and necessary consideration. In this connection, it is understood that in the very near future a complete review of the contract will be made for purposes of determining the merits of further supplementing or re-writing the entire contract. Until such time, the provisions of Contract No. AT(30-1)1293 will apply.

Very truly yours,

Curtis A. Nelson
Manager

cc: Mgr. NYCO - 3-A
A.J. Vander Weyden, Prod.Div. 4-A

Addressee 1-A
Squires 2-A
Mgr.'s Files 5-A
Vinciguerra 6-A
Vogel 7-A
Slaton 8-A
Hagelston 9-A
T&P Files SRP Program Matls. 5 (Sylvania) 10-A
11-A, 12-A and 13-A T&P Chron-

USDOE 017441

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : Files **UNCLASSIFIED**

DATE: July 28⁶, 1954

FROM : John V. Vinciguerra/Joel Levy

SRMA-59

SUBJECT: MEETING ON SYLVANIA PROPOSALS

SYMBOL: A:JVJ/JL:fg

Document No. SR-A-59

This document contains 4 pages
No. 61 of 9 copies, Series A

DEPARTMENT OF ENERGY-SAVANNAH RIVER FACILITY - UNION REVIEW

Determination (Circle Number)

1. Classification unchanged
2. Classification changed to:
3. Classification Cancelled
4. Other: CG-WAF-2

19-00

1st Review Date: 4/10/63
Authority: ABC/ADD

2nd Review Date: 4/10/63
Authority: ADD/ADD

Name: Nelson, J. P. (initials)

The following met on July 1, 1954, to discuss Sylvania Electric Products's proposal for slug canning transmitted by letter dated June 17, 1954, from E. S. Norris to C. A. Nelson. Parties present were:

Sylvania

- S. B. Roboff
- J. I. Kersten
- E. S. Norris

SROO

- R. C. Blair
- G. W. Edwards
- W. H. Slaton
- A. M. Coker
- L. A. Abrams
- J. V. Vinciguerra

NYOO

- P. A. Tobin
- I. J. Landes

Mr. Blair opened the meeting by reference to the Sylvania proposal as submitted pursuant to du Pont's letter dated May 28, 1954, from Lombard Squires to Walter E. Kingston. Mr. Squires' letter requested Sylvania to submit a formal proposal for pressure-bonding 25,000 enriched uranium-aluminum alloy slugs.

Before discussing the proposal itself, Mr. Blair referred to Supplement No. 7 of the existing contract between the Commission and Sylvania which provides for an extension to the term of the contract for one month, June 30, 1954, to July 31, 1954, and increases the cost of the work by an additional \$99,000. Mr. Blair requested information as to the use such money was being put. Mr. Roboff, speaking for Sylvania, stated that the work for the month of July consisted of (1) start-up for the production of the 50,000 slugs which includes test run of approximately 200 pieces requested by the du Pont letter of May 28 (Sylvania had previously completed a test run of 200 pieces) and (2) design of the automatic canning machine. For such work, Mr. Roboff stated that personnel had been cut back to the minimum needed for the Savannah River Program. The majority of employees on rolls consist of technicians and laborers who would be

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- 2 -

July 13, 1954

involved in the processing of the slugs. At the present time, approximately 17 employees are not gainfully employed. The first test run of 200 natural uranium-aluminum alloy slugs is expected to be finished within ten days. The schedule calls for the first enriched slugs, suitable for SRP use, to be produced by July 21.

Sylvania was questioned regarding the feasibility of shortening such elements of the canning cycle as hot pressing time. It was suggested that this was a proper study for the interim period when unoccupied personnel are available. Stan Roboff advised that lack of dies rather than cycle time will be the bottleneck on production schedule, specifically, recycling of dies. The dies are made of Inconel and the Sylvania people stated that they have difficulty obtaining this material.

Question was raised as to the number of dies and estimated cost of the dies to be utilized in the canning of the slugs. Mr. Roboff stated that he was not certain of the exact number and cost but would make such information available to the Commission. This brought up the next question of delivery schedule and it was noted that the schedule submitted by Sylvania did not meet the requirements of the du Pont letter from Lombard Squires. Sylvania indicated it ^{was} maybe possible to improve on the existing schedule proposed but not in any position to make any firm commitments in this respect; however, they stated that this matter would be reviewed by Sylvania with the objective of improving the proposed schedule to meet the requirements of the Commission; that is, 25,000 slugs by December 24, 1954.

Regarding specifications for the slugs, it was pointed out that the specifications set forth in the du Pont letter were not necessarily final and would be subject to change. In this connection, it was understood that du Pont would be responsible for establishing specifications and make all necessary inspections and acceptance of slugs. In this respect, du Pont would be acting for and in behalf of the Commission as its authorized representative.

In regards to the automatic canning machine, question was raised by Mr. Blair as to what the possible uses of the machine might have subsequent to canning of the 50,000 slugs. Mr. Roboff suggested the following uses for the machine: (1) hot pressure canning of thorium; (2) hot pressure canning of uranium; (3) hot pressure fabrication and canning of thorium slugs from thorium powder. Mr. Blair then requested status of design in connection with the machine. Mr. Roboff stated that design would be about one-third finished by the end of July and that it could be completed by November 1954. Based on present program objectives, Mr. Blair stated that he found it difficult to justify completion of design and construction of the automatic canning machine. He indicated that based on Sylvania's proposal, the machine

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July 13, 1954

would cost the Commission a large sum of money which would be difficult to justify if we had no use for the machine subsequent to canning of the 50,000 slugs. Blair then asked whether or not it might not be feasible for Sylvania to share the cost of the machine especially since Sylvania has expressed an interest in a long-term program of canning slugs for the Commission. Mr. Roboff responded that Sylvania has no control over the Commission's program and is in no way capable of determining whether or not there would be a need for the machine at some future date. Sylvania's proposal in regards to the automatic canning machine is based on the position that this machine would provide a more economical method of canning slugs and that the Commission would be in the best position to judge its possible future use.

Mr. Blair suggested that the meeting be adjourned at this time in order to give him an opportunity to think about the various proposals submitted by Sylvania and that after lunch the Sylvania representatives meet with Finance and Legal representatives in order to discuss proposed contract terms and administrative problems and then meet again with him later in the afternoon at which time a decision would be made regarding the proposals.

The group met again at 1:15 to discuss the procedures to be followed assuming acceptance of Sylvania's proposals either in whole or in part. It was agreed that in view of the time element involved it would be more feasible to supplement the present NYOO contract rather than to terminate it and enter into a new contract; however, this is not to preclude a complete review of the present contractual provisions for purposes of rewriting the entire contract in order to meet the specific requirements of this office, clarify language, and replace outdated "boilerplate." The Supplement will incorporate only those items necessary to carry out the new work. These will include but not necessarily be limited to: (1) new scope of work, (2) extension of term of the contract, (3) new consideration. It was noted that a "change" article would be required in view of the revised character of the contract.

Reference was also made to administrative details in connection with procurement, wage and salary administration, accounting, etc. These items necessitated further review by NYOO, Sylvania and SRP. It was suggested that much of the administrative details connected with the aforementioned phases of the work might be administered in conjunction with NYOO especially since that office will continue to maintain an interest with Sylvania under an existing AEC contract at Bayside. It was further agreed that SROO would provide the required assistance with regard to setting up standards for accountability procedure, health physics and security. Also, aid would be given by SROO in advising on criticality hazards.

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- 4 -

July 13, 1954

The group then met again with Mr. Blair who stated that, after due consideration to all three proposals submitted by Sylvania, it was his decision to confine the work to be done by Sylvania to canning of the 50,000 slugs. Mr. Blair stated that he had given every consideration to the possible use of the automatic canning machine but based on information available to him and after listening to the various proposals and justification submitted by Sylvania, he could not in good conscience support the design and construction of an automatic canning machine at this time. He stated that, insofar as he was concerned, the Director of Production had directed him to negotiate this matter with Sylvania and that discretion was left completely to this office to decide whether or not to authorize the design and construction of this machine consistent with the needs of this office. Sylvania's personnel requested whether or not this decision reflected the opinion of the Washington staff. Mr. Blair reaffirmed that the Washington office had delegated to Savannah River necessary authority to negotiate a contract with Sylvania to meet the needs of the Savannah River program.

In view of the decision rejecting the automatic canning machine, Mr. Blair requested that Sylvania cease all work connected with the design and construction of the machine. In regards to an interim program, Mr. Blair stated that we could not authorize one at this time; however, we would discuss the SRP needs with du Pont. If our needs justified an interim program, we would authorize such a program subject to mutual agreement of the parties.

Sylvania requested Savannah River approval to undertake other work both Government and commercial at the Hicksville site subject to priority for SR projects. Authorization for such other work had been granted by NYOO but had since been withdrawn. Sylvania strongly urged that we grant this approval. Mr. Blair stated that this matter would be studied further and an answer given to Sylvania.

Mr. Blair concluded the meeting with the statement that a letter would be transmitted to Sylvania confirming acceptance of Sylvania's proposal "C"; namely, the canning of the 50,000 slugs at a fee of six per cent of estimated cost with the understanding that fee would be subject to equitable reductions if cash advances are authorized for the contractor. The letter of acceptance would also specify that a supplement will be prepared by this office which would incorporate the necessary changes to the present contract in order to carry out the new scope of work. Furthermore, request will be made to Sylvania to review the proposed delivery schedule for the first 25,000 slugs with the objective of delivering that number by December 1954 in accordance with AEC requirements.

Distribution:

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3A - W. H. Slaton	7A - Manager's Office
4A - C. C. Vogel	8A - J. C. Clarke, NYOO

~~SECRET~~

USDOE 017493

CC:JCC

July 7, 1954

Sylvania Electric Products, Inc.
P. O. Box 59
Bayside, Long Island, New York

Attention: Mr. E. S. Norris

Subject: CONTRACT NO. AT(30-1)-1293

Gentlemen:

On April 13, 1954 we informed you that your contract would be transferred to the Oak Ridge Operations Office July 1, 1954 as part of an AEC reorganizational adjustment. A change has been made in this plan so that your contract has been transferred to the Savannah River Operations Office as of that date.

The current delegation of authority to Messrs. R. L. Kirk and G. Dunlap as the Commission's authorized representatives for your contract are hereby revoked effective June 30, 1954. The Manager of the Savannah River Operations Office will delegate the Commission's authorized representative beginning July 1, 1954.

Very truly yours,

J. C. Clarke
Deputy Manager

Cc: Paul Hagelston, SROO-
F. Dowling, OROO

NARA II
RG 326
Accession 4NN 326-87-00
AEC Eng Materials Div. 14
Box 5 16

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This document consists of 1 pages

UNCLASSIFIED No. 3 of 9 Copies, Series A

W. Davis, Director, Technical & Production Division July 14, 1954

THRU: P. J. Hagelston, Chief, Reactor Materials Branch

N. J. Donahue, Reactor Materials Branch SR-1254 SR-TM-1517

REVISED ESTIMATE OF COST OF CANNING LMF SLUGS AT SRP

SYMBOL: TM:MJD:vw

Reference is made to my memorandum of June 9, SR-TM-1410, estimating the cost of canning LMF slugs at Savannah River at \$26.21 each, not including the cost of recovery of U²³⁵ from used Al-Si. Since that time, additional data has been accumulated.

On Page 60 of the June du Pont Works Technical Monthly Progress Report, it is estimated by du Pont, from Oak Ridge data, that the cost of recovering U²³⁵ from the Al-Si used for this process would be approximately \$7.50 per slug. This, added to the previous calculation, results in an estimated unit cost of canning at SRP of approximately \$33.50. This can be compared with the estimated cost of canning slugs under the Sylvania proposal DCF-4787 of less than \$14.00 per slug. To this cost, however, should be added approximately \$2.00 per slug as the value of caps and cans which will be furnished by du Pont, giving a total estimated unit canning cost at Sylvania of \$16.00 per slug and at SRP of \$33.50.

This constitutes additional justification for entering into the Sylvania contract AT-(30-1)-1293.

- Distribution:
- Cy 1A - Addressee
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 - Cy 6A - Chron
 - Cys 7A, 8A, 9A - T&P Rdg. Files

DEPARTMENT OF ENERGY - SAVANNAH RIVER DECLASSIFICATION LIBRARY	
1st Review Date <u>4/8/03</u>	Determination (Circle Number)
Authority: <u>EA DC U AD</u>	1. Classification unchanged
Name: <u>Gallack</u>	2. Classification changed to:
2nd Review Date <u>4/8/03</u>	3. Classification Canceled
Authority: <u>AD</u>	4. Other <u>CG.NRP.2 920</u>
Name: <u>Wesley P. ...</u>	

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Winston Davis, Director, Technical & Production Division

August 10, 1954

UNCLASSIFIED

Paul J. Hagelston, Chief, Reactor Materials Branch,
Technical & Production Division

SR-TM-1611

STATUS OF SYLVANIA (HICKSVILLE) PRODUCTION CONTRACT

SYMBOL: TM:KJD:vw

This document consists of 4 pages

Security

No. 3 of 10 Copies. Series A

(a) Storage Vault

Authorization and approval for the design, procurement, and construction of the vault, door, and alarm system have been given. Forms have now been removed from the new construction, and installation of the door and alarm this week will complete the project.

(b) Security Inspection and Facility Approval

Sylvania expects to be physically ready to receive enriched slugs by August 16. A security inspection of the new construction and of the entire installation must be made before approval can be given for handling of enriched material.

(c) The Guard Force

It will be necessary to increase the present guard force from nine men to fourteen men prior to approval of the security for storage of enriched material. It was at first proposed to augment the guard force by means of working the present force overtime until additional guards could be secured. It has now been agreed, however, that during the start-up period, presently "Q" cleared plant operators will be employed as guards until new guards can be secured, and until the operators are needed for augmented production. Under this system, no overtime work will be required.

(d) Process Area Enclosure

The pressure bonding process area has been completely enclosed by a wall. Personnel access to the area will be through a single guard post. The vault door will be visible to this guard at all times. No visual access to the process area will be available from outside.

This document contains restricted data as defined in the Department of Energy Order of 1946. Its transmission or disclosure to any unauthorized person is prohibited.

DEPARTMENT OF ENERGY'S SAVANNAH PLANT UNCLASSIFICATION REVIEW	
1st Review Date <u>4/8/03</u>	Determination (Circle Number)
Authority: <u>EI ADC, L. ADD</u>	1. Classification unchanged
Name: <u>Gallock</u>	2. Classification change
2nd Review Date <u>4/8/03</u>	3. Classification Canceled
Authority: <u>ADD</u>	4. Other: <u>CG NAR</u> <u>9</u> <u>60</u>
Name: <u>Wynn W. Gardner</u>	

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Winston Davis

-2-

August 10, 1954

Health Physics

NYOO has agreed to, and the Division of Biology and Medicine in Washington has concurred in, our request to have NYOO continue to furnish radiation safety service to the Hicksville Plant during the time that it is engaged in work for SROO.

Giboney has transmitted to Sylvania by letters dated July 22 and July 27 definite detailed instructions on criticality hazards and health physics precautions.

Contractual

A supplement to the original contract was signed July 29 by Sylvania and SROO. Sylvania was dissatisfied with language describing the withholding of the fee and requested that a "hold harmless" clause be included in the contract. Both of these problems are under consideration.

Transportation and Supply - Slug Shipment

It has been decided that full load slug shipments (43 boxes of slugs) will be made by commercial carrier, with ABC courier escort. The commercial carrier contract price for this job (a full load in either direction) is \$345.00 per load. Shipments of one to five boxes, which may be required during the early start-up stages of production, can be made in the security courier escort panel truck. It is thought that shipments up to ten or twelve boxes could be made most economically by means of a second panel truck. Small shipments of cans can also be made with the enriched material.

Oak Ridge has been requested to furnish SROO with information on acceptable compositions of liquid scrap, and design, supply, and procurement of shipping containers for liquid scrap. Shipments of liquid and solid scrap from Sylvania to SROO will be made in the same vehicle with shipments of finished product. SROO will be responsible for the scheduling of all shipments of enriched material.

SF Accountability

The accountability procedure set up in the Sylvania Feasibility Report has been accepted in toto by the SROO Accountability Branch. In addition, it was agreed at the August 4 meeting that only full boxes of slugs (bare, canned, or scrap) would be transported between SROO and Sylvania.

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Winston Davis

-3-

August 10, 1954

Production

In a meeting held August 4 between Sylvania management and production personnel, du Pont representatives of Works Technical (two), Health Physics (one), Process Section (two), Quality Control (one), and SROO (one), the following discussions were held:

1. Agreement on physical dimensions and tolerances of all elements.
2. Agreement of the type and extent of inspection which will be done by Savannah River on slugs, caps, and cans prior to shipment to Sylvania.
3. Agreement on the specifications for final inspection and coordination of all final tests between Sylvania and Savannah River.
4. Agreement on the amount and type of destructive testing of production slugs to be done by Savannah River and Sylvania and agreement on the disposition of rejected slugs at SEP. Sylvania will submit to SROO a supplementary feasibility report covering these operations.
5. Agreement on the timing of deliveries of raw material into Hicksville and the shipping of finished slugs from Hicksville.
6. Agreement was reached that no process development program would be attempted at Hicksville with the excess capacity and personnel except those directly connected with process improvement of the production job at hand.
7. Tentative agreement was reached to begin production on a lot of approximately 500 pieces of active material during the week of August 23. (Sylvania will be ready, in all respects, to begin production on or before that time but du Pont will be unable to furnish swaged slugs and cans of the proper dimensions prior to that time.)
8. Caps cut from bar stock have been ordered from Alcoa, with delivery promised by August 23. These caps are less desirable for production slugs than punched and coined caps, but their utilization will enable production to start two weeks sooner. A calculated risk on the first 500 produced will be taken by using this alleged inferior type cap. Delivery of the preferred design is promised by Alcoa two to three weeks later.

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Winston Davis

-4-

August 10, 1954

9. Agreement was reached on the form and content of Sylvania weekly and monthly production reports for submission to SROO.
10. Agreement was reached on the division of responsibility between du Pont and SROO as follows:

du Pont: (1) specifications, (2) inspection, (3) technical liaison, and (4) supply of furnished materials.

SROO: (1) accountability, (2) health and safety, (3) security, (4) transportation, (5) finance, and (6) contract.

Joint: production schedules.

Feasibility Report

The feasibility report submitted by Sylvania has been analyzed and agreement reached on minor modifications for the security and health and safety sections; accountability was accepted as written.

Distribution: Cy 1A - Davis/Kilburn/Levy
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USDOE 017427

This document consists of 2 pages
No. 2 of 12 Copies, Series A
August 12, 1954

Distribution

Paul J. Hagelston

SR-TM-1621

BACKGROUND SUMMARY ON SYLVANIA - CONTRACT AT(30-1)-1293

Contract No. AT(30-1)-1293	Cancelled
Date	11-28-73
For the U.S. Atomic Energy Commission	
<i>[Signature]</i>	
Division of Classification	

SYMBOL: TM: NJ Depew

Historical Background

In the latter part of 1947, Sylvania Electric Products, Inc. at Bayside, L. I., initiated a metallurgical research and development program under Contract AT-30-IGER-366 with NYOO. At this time, the Commission was interested in the possibilities of powder metallurgy as a method for the fabrication of fuel elements in reactor components. By late 1951, Sylvania had developed apparently successful laboratory methods for producing uranium slugs by powder metallurgy techniques.

On this basis, a contract No. AT(30-1)-1293 was entered into December 10, 1951, with Sylvania Electric Products by NYOO to expand the powder metallurgy development on a pilot plant scale. Following the signing of this contract, Sylvania acquired by outright purchase a development site at Hicksville, suitable for pilot plant operations. There were two major buildings on the property. Building No. 1 was used to house the operation phase of the pilot plant and administrative offices. Building No. 2 was used to house the drafting and design offices, machine shops, storage rooms, and cafeteria. Building alterations and rehabilitation began in February 1952. Initial pilot plant operation began on August 15, 1952. Experimental production was continued through the end of fiscal year 1954.

Beginning in the latter part of January, 1954, at the request of the du Pont Company, Sylvania prepared about 160 uranium oxide-aluminum fuel slugs and lithium salts-aluminum target slugs by powder metallurgy techniques at Hicksville. At that time it was believed that slugs prepared from oxides and salts with aluminum powder would be less reactive with water than cast or extruded aluminum alloy slugs. Although the manufacturing experiment was successful, interest in the development waned due to the solution of the problem through another line of attack. Again at the request of the du Pont Company, in March 1954, Sylvania embarked on a development program to pressure bond and can, cast and extruded

RESTRICTED DATA - DISCLOSURE OF ITS CONTENTS IS PROHIBITED

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DOES NOT CONTAIN UNCLASSIFIED CONTROLLED NUCLEAR INFORMATION	
ADC:ADD	CG:VMP:2
Reviewed by <i>[Signature]</i>	9-00
Checked by V.M. Gardner, DOE-SR Classification Analyst	
Date: 3-27-03	

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uranium-aluminum slugs, by means of a similar technique. The successful experimental work thus initiated resulted in a letter on May 28, from du Pont (L. Squires, Director, Technical Division) to Sylvania (Walter E. Kingston, General Manager, Atomic Energy Division) requesting a formal proposal for pressure bonding 25,000 enriched uranium-aluminum alloy slugs.

In response to this request, on June 17, 1954, a proposal was made to Mr. Curtis A. Nelson from Mr. E. S. Norris, Manager, Sylvania's Control Department, by means of a letter and attachments. After due consideration and negotiation, proposal C of this letter was accepted and supplement B to the original contract was signed on June 29, 1954. In the meantime, in order to implement SROO's anticipated intention of accepting some of Sylvania's proposals, Mr. H. B. Fry, Manager, NYOO, by letter of June 8 extended the contract through July 31, 1954, and added \$9,500 to the Commission's monetary obligation under the contract. Sylvania was authorized to proceed to plan and prepare for work at Hicksville on the assumption that the Commission would authorize, prior to August 1, a further contract modification covering one or more of the proposals under consideration.

Contractual Information

The contract is a cost-plus-fixed fee type. Fee is based on 6% of estimated operation cost. The contract is integrated, and is financed by Sylvania funds. The services under this contract were procured by negotiation without formal advertising.

In round numbers, the modified contract calls for the pressure-bond canning of 50,000 enriched slugs (slugs, caps, cans to be furnished by SROO) during the period July 1954 through May 1955. Total estimated cost is \$689,000. Of this, the fee will amount to \$37,000 and \$57,500 is the estimated capital cost. Total construction is estimated as \$7,000, largely for a security storage vault and alarm equipment.

Status Reports

For additional detail concerning overall status of the contract, reference is made to SR-TM-1530, dated 7/15/54 and SR-TM-1611, dated 8/10/54.

Distribution:

1A Nelson/Blair/Vogel	7A Bergen
2A Davis	8A Matls Br. Files
3A Edwards/Vinciguerra	9A Chrono
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5A Low	
6A Samples	

Office Memorandum • UNITED STATES GOVERNMENT
This document consists of 4 pages

UNCLASSIFIED

No. 1 of 10 Copies, Series A

TO : Winston Davis, Director, Technical & Production Division DATE: September 14, 1954

SR-TM-1709

FROM : P. J. Hagelston, Chief, Reactor Materials Branch, Technical & Production Division

SUBJECT: STATUS OF SYLVANIA CONTRACTS - HICKSVILLE AND BAYSIDE

SYMBOL: TM:NJD:vw.

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date: 4/21/03	Determination (Circle Number)
Authority: <input checked="" type="checkbox"/> ADC <input type="checkbox"/> ADD	1. Classification Unchanged
Name: <i>Qaslock</i>	2. Classification changed to:
2nd Review Date: 4/21/03	<input checked="" type="checkbox"/> 3. Classification Canceled.
Authority: ADD	4. Other: CG-NRP-2 9-00
Name: <i>Winston Davis</i>	

A. HICKSVILLE

1. Security

(a) Facility Approval

On August 20, 1954, facility security approval was granted to receive and store quantities of U-235 greater than 1 kg. and less than 50 kg. On August 23 and 24, a complete security survey was made. The first enriched material was received and stored on August 24.

(b) On August 16, a letter outlining classification requirements pertaining to the Sylvania production job was forwarded.

2. Health Physics

On August 27, the Sylvania Feasibility Report No. 19, Revision No. 1, dated August 12, 1954, was approved as amended by two TWIs from Giboney to Sylvania regarding health physics details.

3. Contractual

On September 2, an indemnity clause and a proposed patent indemnity clause were negotiated with Sylvania representatives at SROO. These are presently under consideration by Sylvania's legal department.

4. Transportation and Supply

(a) Shipping Containers

Arrangements were made through the Pittsburgh Area Office to borrow shipping containers from Westinghouse, suitable for shipping liquid U-235 wastes under ICC regulations. Design drawings of these containers, as well as those of a different design from Idaho Operations Office, have been sent to Sylvania for fabrication of additional containers, as needed. These containers will be used to ship the concentrated liquid wastes (cleaning solutions) from Sylvania to SRP ~~SECRET~~ Ridge for reclamation.

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Winston Davis

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September 14, 1954

(b) Shipping

The first shipment of enriched slugs (approximately 1,000) left SROO on August 23 and approximately an equal number of cans were shipped via the same vehicle. This shipment was escorted by AEC courier.

On September 8, the first three cases (156 slugs) finished product were shipped from Sylvania to SRP in the security truck. The next regular shipment of material from SRP to Sylvania will be made on September 16, and will be the first round trip shipment with active material carried both ways.

5. SF Accountability

Effective August 1, the SF Accountability Station for Sylvania's Hicksville Plant was transferred from NYOO to SROO and the station symbol changed from SHP to SRS.

6. Finance

Under date of August 23, a Financial Plan covering F. Y. '55 for the Sylvania Hicksville Plant was forwarded to the Manager of the Control Department. The bottom-line figure is \$749,153, which includes \$30,000 plant and equipment modification costs, and \$50,000 for the transferred cost of caps and cans.

7. Production

A production rate of twelve heats (72 slugs) per day has been achieved each working day to-date during the month of September. This rate is scheduled to rise to fifteen heats (90 slugs) per day beginning September 13. Observation indicates that no particular difficulty will be encountered in increasing the production to this rate. A production schedule for the balance of C. Y. '54 (copy attached) shows an ultimate projected rate of 48 heats per day (288 slugs) achieved during November. This assumes delivery of additional dies on a schedule which is already slightly in arrears, and considerable production increase due to increased proficiency of the operating personnel. This production schedule shows a cumulative total of approximately 19,000 slugs produced by the end of December, 1954, assuming a yield of 95%.

The first production of canning of enriched material started on August 30 and 31, 1954. Only five heats were made the first day and seven on the second day due to power interruption caused by the hurricane hitting Long Island on August 31. The yield of good

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slugs in these first two days operation was 76%; however, the yield from the first three working days in September was 97%. Some difficulty is being experienced with the electro-polishing operation (the last operation performed on the slugs) due to make-shift equipment and improperly stopped-off cleaning racks. The only other source of difficulty is in the machining operation which cleans off the flash of excess aluminum at both ends of the can after the hot pressing operation. Both of these are minor technical difficulties in fields of voluminous technical knowledge and experience, and will very shortly be solved by modification of the process equipment. The major problems associated with the relatively unknown techniques of pressure bonding and canning appear, at this time, to have been adequately handled and are presenting no difficulty in slug quality.

The shipment of three cases of finished product (156 slugs) on September 8 was accomplished without incident at the same time shipment was made on three experimental dummy slugs containing manufactured defects to the SRP Technical Division.

At the projected production schedule, Sylvania will be out of enriched slugs and cans by September 16 or 17. Provision has been made by du Pont to provide additional supply prior to that time. It has been strongly recommended to du Pont by SROO that, due to the economics of transportation, a full shipment of approximately forty cases of slugs (just less than 50 kg. of U-235) be made at that time.

B. BAYSIDE

On September 8, the writer attended a meeting at Bayside between Walter Kingston, Manager of Sylvania's Atomic Energy Division, and his departmental managers, namely, Boyd Metz, John Zambrow, Ray Stewart, and Stan Roboff. The purpose of the meeting was two-fold: (1) Boyd Metz was asked to summarize the production activities at Hicksville; (2) agreement was reached to produce six pressure canned and bonded thorium slugs for presentation to du Pont at a meeting scheduled for Wilmington September 21. These slugs are being made at du Pont's (Hood Worthington's) request. Due to the short time and small number of pressure dies available, it was decided to utilize the facilities at both Hicksville and Bayside in order to get the required production and to utilize also two slightly different techniques. It was agreed that this job comes under the scope-of-work of the Bayside contract and any work done at Hicksville will be financed as "outside work".

When the writer pointed out to Kingston that a scope-of-work for the Bayside contract had never been submitted by Sylvania, it was explained

Winston Davis

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September 14, 1954

Distribution:
 Cy 1A - Davis/Kilburn/Levy
 Cy 2A - Nelson/Blair/Coker
 Cy 3A - Edwards/Vinci Guerra/Stephens
 Cy 4A - Low/Niland/Rossette
 Cy 5A - Stetson/Rubin/Giboney/Kuhn
 Cy 6A - Mat'ls Br. Files
 Cy 7A - Mat'ls Chron
 Cys 8A, 9A, 10A - T&P Rdg. Files

that this had been held up pending approval by the Sylvania management for the purchase of a \$14,500 rolling mill required since AEC had refused to purchase it. Kingston stated that the scope-of-work had already been written and it was being held in abeyance until approval was secured. The new scope of work has just been received from Sylvania via du Pont. The total cost, including fee and equipment, has been pared down to \$300,000 by reducing the operating level to \$281,400, and by eliminating \$19,000 of equipment costs. The revised equipment list does not include the rolling mill as Sylvania plans to purchase the mill with its funds. Permission was requested from SROO to install the mill at the Hicksville Plant. The revised cost estimate is as follows:

1. Direct Labor	\$ 87,000
2. Overhead @ 116.3%	101,200
3. Other Direct Charges	48,200
4. General & Administrative Expense @ 12.3%	<u>29,100</u>
	TOTAL \$265,500
5. Fee	<u>15,900</u>
	TOTAL OPERATING LEVEL \$281,400
6. Equipment	<u>18,600</u>
	TOTAL \$300,000

EQUIPMENT:

<u>Item</u>	<u>Estimated Cost</u>
Roller Straightener (Used)	\$ 3,500
Special Attachments for Ultrasonic Test Equipment	1,000
Hydraulic Intensifier	3,500
Pressure Recording Instrument	600
Heaters and Temperature Control for Pressing Cylinder	2,000
Two Sets Form Rolls	5,000
Roll Guides (may be fabricated by Sylvania)	<u>3,000</u>
	TOTAL \$ 18,600

On September 14, NYOO was notified that SROO is in agreement with the level of this revised proposal and recommended its approval. We also agreed to the installation of the rolling mill in the Hicksville Plant with the provisions that it be installed outside of the exclusion area and that work performed with it be considered as "outside Work" relative to the Savannah River contract with Sylvania at Hicksville.

Attachment:
 Cy 2B, DCF #863-H dtd 8/18/54, Production Schedule

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Office Memorandum • UNITED STATES GOVERNMENT
This document consists of 3 pages

No. 1 of 10 Copies, Series A

TO : Winston Davis, Director, Technical & Production Division DATE: October 29, 1954

FROM : Paul J. Hagelston, Chief, Reactor Materials Branch, Technical & Production Division SR-TM-1870

SUBJECT: PROGRESS REPORT ON SYLVANIA CONTRACT AT(30-1)-1293 - HICKSVILLE

SYMBOL: TM:NJD:vw

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ADC & ADO
Reviewed by J. M. Darden CG-NRP-2
Official 9/100
V.M. Gardner, DOE-SR Classification Analyst
Classification 3-24-03

Classification Cancelled
Date 11-28-73
For the U. S. Atomic Energy Commission
M. J. ...
Division of Classification

1. Security and Classification

In addition to routine security actions, the following significant points were accomplished:

(1) Agreement between NYOO, SROO, and Sylvania that visitor approvals would be granted upon a facility rather than a job basis, that is, all visitor approvals to Hicksville, regardless of purpose, would be made by SROO and all visitor approvals to Bayside, regardless of purpose, would be made by NYOO.

(2) Transmittal of a letter to Sylvania covering (a) maintenance of the Hicksville vault alarm system, (b) suggested classification handling of Run Data Sheets, (c) outlining permissible distribution of research and development reports among "Q" cleared personnel, and (d) outlining compartmentalization requirements relative to distribution of SROO production data.

2. Health Physics and Waste Disposal

Approval was given to a Sylvania proposal for relaxation of the concentration limitations for shipment of waste solutions from SEP to SRP and Oak Ridge Y-12, as well as design of shipping container (30 gallon plastic lined drum contained in a 50 gallon drum) to be used for this purpose.

3. Contractual

The proposed contract modification, bringing the contract into conformity with the Atomic Energy Act of 1954 relative to patents, is still under consideration by Sylvania.

4. Transportation and Supply

Shipment of bare slugs from SRP to SEP and return of canned slugs is now in routine operation on a schedule of approximately thirty cases (1,560 slugs) per week. This seven day shipping schedule will probably have to be moved up to about five days when the process reaches its ultimate capacity.

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RESTRICTED DATA OR THE DISCLOSURE OF ITS CONTENTS IN ANY MANNER

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Winston Davis

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October 29, 1954

Approximately 7,000 slugs have been shipped to SEP to-date. With material on hand and scheduled removals from FDP, it is estimated that a total of approximately 20,000 slugs will be available for canning at SEP. Under the projected production schedule, this quantity will have been canned by December 15 of this year. If the requirements for this material are as high as outlined in CXXIX-12, it will be necessary to secure additional deliveries of bare slugs from Oak Ridge beginning December 15, and the decision to procure additional material and its quantity must be made by du Pont by November 15, 1954.

5. Finance

The unit cost of canning LM slugs for the month of August, covering only two days' production, was \$96.24 per slug. The September cost, covering production during the entire month of September, exclusive of depreciation, but including the deferred charge application (amortized start-up costs), is \$15.14 per slug. This compares very favorably with the unit cost estimate, revised on July 20, 1954, of \$17.99 per slug.

The overall cost for the first three months of operation ending September 30, calculated on the same basis, is \$16.50 per slug.

6. Production

Through October 22, actual production has totaled 5,305 slugs. From this quantity, 4,939 slugs passed the Sylvania inspection for an apparent process efficiency of 93%. Out of the material rejected by Sylvania, du Pont has accepted an additional 83 pieces, giving an actual percentage yield of 94.5%. Approximately half of the good pieces thus far produced have been welded and inspected at SRP with a yield of approximately 86%. From these it is possible to calculate a synthetic overall instantaneous process efficiency of approximately 81%. There was every reason to believe that this yield will increase as the process and operator experience improves.

The present scheduled and actual production rate is 240 slugs per day. This is scheduled to rise the week of November 1 to 264 slugs per day and on the week of December 6 to 288 slugs per day. This is the ultimate predicted production rate.

7. Administration

Implementation of a recommendation made by J. J. Wise during his review of accounting procedures September 21-24 is underway. Basically, this entails the assignment of all Hicksville facilities to the SROO

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Winston Davis

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October 29, 1954

contract for both accounting and management purposes. Economy of supervision and travel, as well as increased efficiency, is expected to result.

8. Outside Work

At the request of du Pont Technical Division, on October 22, fifty thorium slugs were shipped to Sylvania for pressure bond canning in the production equipment. It is expected that most, if not all, of these pieces will be returned to SRL with the scheduled November 1 shipment from SEP.

9. Personnel

On October 22, 1954, approval was given to the revised rate changes and revised plan of overtime policy detailed in R. A. No. 11, Appendix A to Contract AT(30-1)-1293.

Distribution: Cy 1A - Davis/Kilburn/Levy
Cy 2A - Nelson/Blair/Coker
Cy 3A - Edwards/Vinciguerra/Stephens
Cy 4A - Low/Niland/Rosette
Cy 5A - Stetson/Rubin/Giboney/Kuhn
Cy 6A - Mat'ls Br. Files
Cy 7A - Mat'ls Chron
Cys 8A, 9A, 10A - T&P Rdg. Files

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USDOE 017137

A

Modification No. 9
Supplemental Agreement to
Contract No. AT(30-1)-1293

Modification No. 9

CONTRACTOR: Sylvania Electric Products, Inc.
Bayside, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Increase the scope of work, extend
the term of the contract, amend the
fee payment and provide for patent
and general indemnity.

	<u>Total</u>	<u>Portion Applicable to Savannah River Operations Office</u>
Previous Direct Cost	\$ 4,761,813	\$ 661,963
This Modification	<u>1,450,795</u>	<u>1,450,795</u>
New Direct Cost	\$ 6,212,608	\$ 2,112,758
Previous Fixed Fee	\$ 209,340	\$ 37,190
This Modification	<u>84,028</u>	<u>84,028</u>
New Fixed Fee	\$ 293,368	\$ 121,218
Total	\$ 6,505,976	\$ 2,233,976
Total Obligated February 2, 1955	\$ 5,909,700	\$ 1,637,700

SROO Response to
FOIA (SR) - 04-028

Modification No. 9
Supplemental Agreement to
Contract No. AT(30-1)-1293

THIS SUPPLEMENTAL AGREEMENT, effective as of 12:01 o'clock A.M., November 15, 1954, except as otherwise specifically expressed herein, by and between the United States of America (hereinafter referred to as the Government), as represented by the United States Atomic Energy Commission (hereinafter referred to as the Commission), and Sylvania Electric Products, Inc. (hereinafter referred to as the Contractor);

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to modify said Contract, as heretofore modified, as hereinafter provided; and

WHEREAS, this supplemental agreement is authorized by the Atomic Energy Act of 1954;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore modified, is hereby modified further in the following respects:

1. The following new subdivision e is added to paragraph 1 of Article I - SCOPE OF THE WORK:

"e. Effective November 15, 1954, the Contractor shall proceed with the manufacture, testing, inspection and delivery of metal and alloy slugs in accordance with the Contractor's proposal #2 as contained in his letters of November 8 and November 17, 1954, to Hood Worthington, E. I. du Pont de Nemours & Company, Inc. and as further modified by the Contractor's proposal DCF #5527 dated January 11, 1955, accepted by the Commission's letter dated January 14, 1955, from Curtis A. Nelson to E. S. Norris. The aforementioned proposals and letters are made a part hereof by reference."

2. In paragraph 1 of Article III - TERM, EXPIRATION AND TERMINATION, "May 31, 1955" is changed to "June 30, 1956".

3. Paragraph 1 of Article IV - CONSIDERATION is changed to read as follows:

"a. A fixed fee of one hundred seventy-two thousand one hundred fifty dollars (\$172,150) with respect to all of the work and services provided for in subdivisions a and b of paragraph 1 of Article I as authorized in Modification No. 5.

b. A fixed fee of one hundred twenty-one thousand two hundred eighteen dollars (\$121,218) with respect to all of the work and services provided for in subdivisions c, d and e of paragraph 1 of Article I as authorized in Modification Nos. 7, 8 and 9.

c. Payment for allowable costs as hereinafter provided."

4. Subdivision t of paragraph 3 of Article IV - CONSIDERATION is renumbered subdivision u, and the following new subdivision t is added:

"t. All costs involved in the identification, segregation, preparation, and microfilming or dispersal of records determined to be vital under the program outlined in AEC Manual Chapter 0236."

5. Subdivision a of paragraph 5 of Article IV - CONSIDERATION is changed to read as follows:

"a. Payment of the Fixed Fees.

(i) Payment of 90% of the fixed fee of \$172,150 set forth in subdivision a of paragraph 1 of this Article IV shall be made by the Government monthly in amounts based on the percentage of the completion of the work hereunder, as determined from estimates submitted to and approved by the Commission.

(ii) Payment of the fixed fee of \$121,218 set forth in subdivision b of paragraph 1 of this Article IV shall be made in monthly installments as follows:

(a) 90% of a monthly fixed fee of \$3,381 (determined as one-eleventh of \$37,190) shall become due and payable on the last day of each month for the 6½ month period beginning July 1954 and ending January 14, 1955.

(b) 90% of a monthly fixed fee of \$5,671 (determined by prorating \$99,241 over 17½ months) shall become due and payable on the last day of each month for the 17½ month period beginning January 15, 1955 and ending June 1956."

6. Article IV - CONSIDERATION paragraph 5 c is amended by deleting the period at the end of the paragraph and adding the following:

"; provided, however, that the portion of the fixed fee of \$172,150 withheld for work performed under subparagraphs a and b of paragraph 1 of Article I shall be paid to the Contractor upon completion of the work applicable to such fee."

7. Article IV - CONSIDERATION paragraph 6 b (1) is changed to read as follows:

"b (1) The Commission has obligated for this Contract, from obligational authority available to it, the following amounts which may be increased from time to time by the Commission in its discretion by written notice:

(i) \$4,272,000 with respect to the work provided for in subdivisions a and b of paragraph 1 of Article I.

(ii) \$1,637,700 with respect to the work provided for in subdivisions c, d and e of paragraph 1 of Article I."

8. The last line of Article IV - CONSIDERATION paragraph 6 b (4) is amended by substituting "subdivision (2)" for "subdivision d".

9. Subdivision (7) of paragraph 6 b of Article IV - CONSIDERATION is changed to read as follows:

"Except as set forth in Article VII, paragraph 6, and Article XII, the liability of the Government shall be limited to the Commission's obligation specified in subdivision (1) above, as may be increased by the Commission by notice to the Contractor in writing."

10. The following changes are made in Article VII - PATENTS:

a. Paragraph 1, line 12, substitute "special nuclear" for "fissionable".

b. Paragraph 2, line 2, substitute "Atomic Energy Acts of 1946 and 1954" for "Atomic Energy Act of 1946".

c. Paragraph 5, line 9, substitute "special nuclear" for "fissionable".

d. Paragraph 5, line 10, substitute "special nuclear" for "fissionable".

e. The following new paragraph is added:

"6. (a) Except as otherwise stipulated in writing by the Commission, or as provided in paragraphs (b) and (e) below, the Contractor agrees to indemnify the Government, its officers, agents, servants and employees against liability (including but not limited to reasonable costs and expenses incurred) arising from the infringement or the alleged infringement of any Letters Patent (not including liability arising pursuant to Section 183, Title 35 (1952) U. S. Code, prior to issuance of Letters Patent)

occurring in the performance of this contract, or arising by reason of sale to, or purchase by, or disposal by, or for the account of the Government of items manufactured or supplied under this contract.

(b) With respect to infringement or alleged infringement necessarily resulting from the Contractor's compliance with written specifications or provisions given by the Commission for components which are not standard commercial products of the Contractor or resulting from specific written instructions given by the Commission for the purpose of directing a manner of performance of the contract not normally utilized by the Contractor, the Government agrees to hold the Contractor harmless from liability arising from such infringement or alleged infringement of any United States Letters Patent in view of the following facts:

- (1) The Contractor has not made an investigation as to the possibility of patent infringement,
- (2) The Government and the Contractor desire to avoid the delay incident to a patent investigation, and
- (3) The Contractor has not included in its price any provision for the settlement of possible patent claims;

provided, however, that with respect to procurements undertaken on or after the date of actual execution of this Modification, except as otherwise directed by the Commission, the Contractor will secure indemnification from suppliers or vendors of standard commercial products. The Contractor, to the extent that it can extend such aforesaid indemnification from suppliers or vendors, agrees to so extend this indemnification to the Government.

(c) Except as otherwise directed by the Commission in writing, the Contractor, with respect to claims and actions involving liabilities against which it is held harmless by the Commission, shall give prompt notice in writing to the Commission of any such claims and actions of which it has notice and shall furnish promptly to the Commission copies of all pertinent papers received by the Contractor with respect to any such action or claim. If required by the Commission, the Contractor shall with respect to such actions or claims (at the Government's expense, by proper arrangement) assist the Government in the settlement or defense of such action or claim and shall furnish such evidence in its possession as may be required by the Government in the settlement or defense of such action or claim.

(d) The obligation of the Commission to the Contractor on claims or actions involving liability against which the Commission

is indemnified by the Contractor under the terms of this contract shall be identical with the obligations of the Contractor to the Commission under subparagraph (c) above with respect to claims or actions involving liability against which the Contractor is held harmless by the Commission. In such situations, the Contractor shall be given full opportunity to participate in the defense against such claims and actions.

(e) However, anything to the contrary notwithstanding, the Contractor assumes no liability consequential or otherwise for, and the Government agrees to hold the Contractor harmless against liability (including but not limited to reasonable costs and expenses incurred) for infringement or alleged infringement by reason of the use of the completed product in combination with other items or materials or in the operation of any process."

11. Article XIII is deleted and the following is substituted:

"ARTICLE XIII - DISCLOSURE OF INFORMATION

1. Contractor's Duty to Safeguard Restricted Data. In the performance of the work under this contract the Contractor shall, in accordance with the Commission's security regulations and requirements, be responsible for safeguarding Restricted Data and other classified matter and protecting against sabotage, espionage, loss and theft, the classified documents, materials, equipment, processes, etc., as well as such other material of high intrinsic or strategic value as may be in the Contractor's possession in connection with performance of work under the contract. Except as otherwise expressly provided in the specifications the Contractor shall upon completion or termination of this contract transmit to the Commission any classified matter in the possession of the Contractor or any person under the Contractor's control in connection with performance of this contract.

2. Regulations. The Contractor agrees to conform to all security regulations and requirements of the Commission.

3. Definition of Restricted Data. The term "Restricted Data" as used in this Article, means all data concerning (1) design, manufacture, or utilization of atomic weapons; (2) the production of special nuclear material, or (3) the use of special nuclear material in the production of energy, but shall not include data declassified or removed from the Restricted Data category pursuant to Section 142 of the Atomic Energy Act of 1954.

4. Security Clearance of Personnel. Except as the Commission may authorize, in accordance with the Atomic Energy Act of 1954, the Contractor shall not permit any individual to have access to Restricted Data until the designated investigating agency shall have made an investigation and report to the Commission on the

character, associations, and loyalty of such individual and the Commission shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense or security. As used in this paragraph the term 'designated investigating agency' means the United States Civil Service Commission or the Federal Bureau of Investigation, or both, as determined pursuant to the provisions of the Atomic Energy Act of 1954.

5. Criminal Liability. It is understood that disclosure of information relating to the work or services ordered hereunder to any person not entitled to receive it, or failure to safeguard any Restricted Data or any top secret, secret, or confidential matter that may come to the Contractor or any person under the Contractor's control in connection with work under this contract, may subject the Contractor, his agents, employees, and subcontractors to criminal liability under the laws of the United States. (See the Atomic Energy Act of 1954, 68 Stat. 919), (See also Executive Order 10104 of February 1, 1950, 15 F. R. 597.)

6. Subcontracts and Purchase Orders. Except as otherwise authorized in writing by the Contracting Officer, the Contractor shall insert provisions similar to the foregoing in all subcontracts and purchase orders under this contract.

12. Article XXI is deleted and the following is substituted:

"ARTICLE XXI - NONDISCRIMINATION IN EMPLOYMENT

In connection with the performance of work under this contract, the Contractor agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of the nondiscrimination clause. The Contractor further agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

13. ARTICLE XXVIII - DOMESTIC ARTICLES is deleted and the following is substituted:

"ARTICLE XXVIII - BUY AMERICAN ACT

The Contractor agrees that there will be delivered under this contract only such unmanufactured articles, materials and supplies

(which term "materials and supplies" is hereafter referred to in this clause as "supplies") as have been mined or produced in the United States, and only such manufactured supplies as have been manufactured in the United States substantially all from supplies mined, produced, or manufactured, as the case may be, in the United States. The foregoing provisions shall not apply (i) with respect to supplies exempted by the Commission from the application of the Buy American Act (41 U.S.C. 10a-d), (ii) with respect to supplies for use outside the United States, or (iii) with respect to the supplies to be delivered under this contract which are of a class or kind determined by the Commission not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or (iv) with respect to such supplies, from which the supplies to be delivered under this contract are manufactured, as are of a class or kind determined by the Commission not to be mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, provided that this exception (iv) shall not permit delivery of supplies manufactured outside the United States if such supplies are manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality."

14. Effective July 1, 1954, immediately following Article XL add a new Article XLI to read as follows:

"ARTICLE XLI - INDEMNITY

Notwithstanding any other provisions of this contract, it is agreed that the Contractor shall not be liable for, and the Government shall, subject to the availability of funds, indemnify and hold the Contractor harmless against, any and all loss or damage (including but not limited to personal injury, disease or death of persons, or damage to property), and any and all expense in connection therewith or in connection with alleged loss or damage (including but not limited to the expense of litigation), arising out of, based on, or caused by radioactive, toxic, explosive or other hazardous properties of source, special nuclear, or radioactive materials, or products or by-products therefrom, which the Contractor may use, possess or otherwise handle under or in connection with this contract, whether or not any director, officer, employee, or agent of the company is responsible therefor; provided, however, that this obligation of the Government shall apply only in those instances where loss or damage, and expense in connection therewith or in connection with alleged loss or damage, is not due to or caused by gross negligence or bad faith on the part of any officer of the Contractor, or on the part of any representative or employee of the Contractor exercising the powers, responsibilities and duties normally exercised by the plant manager having direction or supervision of the work

3. Insurance against damages to motor vehicles, not Government-owned, used by the Contractor in connection with the work provided for in Article I of this contract and against damages to persons and property resulting from operation by the Contractor and its employees of motor vehicles in connection with said work, in these dollar amounts; One Million Dollars (\$1,000,000) per person and per accident respecting personal injuries and One Million Dollars (\$1,000,000) respecting property damage.

4. The parties agree that a minimum of the insurance covered by subparagraphs 1, 2 and 3 of this Article XLI was in force prior to this modification to this contract and that the cost thereof is included in the rental charge for the use of the Contractor's Hicksville Plant as provided for in subparagraph j of paragraph 3 of Article IV. The parties further agree that the Contractor shall be reimbursed by the Commission for any additional cost of such insurance over and above the cost of such insurance at the date of this modification, including but not limited to the cost of obtaining additional insurance to reinstate, in accordance with the Contractor's normal insurance practice, the minimum coverages provided for in subparagraphs 1, 2 and 3 above if any of such minimum coverages has been reduced by loss or damage, or expense in connection therewith or in connection with alleged loss or damage, arising from, based on, or caused by work under or in connection with this contract. However, such additional cost as is due to increase in premiums for reasons other than reinstatement of the aforescribed minimum coverages shall be reimbursed only to the extent that such additional cost is occasioned solely as a result of the use, possession, or other handling of source, special nuclear, or radioactive materials, or products or by-products therefrom, that may be involved in the performance of the work under this modification to this contract.

IN WITNESS WHEREOF, the parties have executed this Supplemental Agreement.

Witnesses as to signature of Contractor:

June L. Brouters
30-14 153 St. - Flushing, N.Y.
(Address)

Beatrice E. Kalmes
199-04 24 Road Bayside, N.Y.
(Address)

UNITED STATES OF AMERICA

By [Signature]
Manager
(Title)

United States Atomic Energy Commission

Date: May 12, 1955

SYLVANIA ELECTRIC PRODUCTS, INC.

By [Signature]
W. E. Kingston
General Manager, Atomic Energy Division
(Title)

Date: April 29, 1955

I, J. D. Dwyer, certify that I am the Assistant Secretary of the corporation named as Contractor herein; that W. E. Kingston who signed this modification on behalf of the Contractor was then General Manager, Atomic Energy Div. of said corporation; that said modification was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and seal of said corporation.

[Signature]

(Corporate Seal)

B

Rama

SYLVANIA ELECTRIC PRODUCTS, INC.
CONTRACT NO. AT(30-1)-1293
(As amended by Modifications 1 thru 8
and as proposed in Modification No. 9)

ARTICLE I - SCOPE OF THE WORK

Mod. 6

1. a. The Contractor shall conduct studies, experimental investigations and other research and development work for the Government, the details of which research and development work are set forth in the classified Appendix 'B' to this contract. A copy of said Appendix 'B' signed by the Contractor is on file in the offices of the Commission and said Appendix 'B' is incorporated herein by reference and made a part hereof.

Mod. 5

b. Between July 1, 1953, and June 30, 1954 the Contractor shall conduct studies, experimental investigations and other research and development work for the Government, the scope of which is set forth in the classified document captioned 'Amendment No. 1 to Appendix "B"; a copy of said Amendment No. 1 to Appendix 'B' signed by the Contractor is on file in the offices of the Commission and said Amendment is incorporated herein by reference and made a part hereof.

Mod. 7

c. Promptly upon the execution of Modification No. 7 to this Contract, the Contractor shall take all practical steps toward conclusion of its performance of the work provided for in subdivision b above and toward commencement of the work referred to in the sentence next following. Beginning as soon as is reasonably possible, and in any event by July 1, 1954, and continuing until the end of July, 1954, the Contractor shall conduct under this Contract only such studies, experimental investigations and other research and development work as is authorized in writing by the Commission; said writings may or may not be in the form of formal modifications to this Contract.

Mod. 8

d. (i) Promptly upon the execution of Modification No. 8 to this contract, the Contractor shall take all practical steps toward conclusion of the work as authorized by subdivision c above and toward the commencement of the work referred to next following. Beginning as soon as reasonably possible and continuing until the work herein described is completed, the Contractor, in accordance with the letter of award, dated July 6, 1954, from C. A. Nelson, Manager, Savannah River Operations Office, United States Atomic Energy Commission, addressed to E. S. Norris, Manager of Control Department of the Contractor, as herein modified, shall undertake the procurement and fabrication of the necessary equipment, the construction of security fences, alarm systems and vaults, and the canning/~~Plutonium~~ alloy slugs, all in accordance with the schedule applicable to Proposal C contained in the Contractor's letter

metal and

dated June 17, 1954, addressed to C. A. Nelson, Manager, Savannah River Operations Office, United States Atomic Energy Commission, and signed by E. S. Norris on behalf of the Contractor, using the pressure bonding technique developed at the Hicksville, Long Island, New York, Plant of the Contractor and improved modifications which may be realized in the course of the work, including the manufacturing, testing, inspection and delivery of the slugs, canned in aluminum in accordance with the specifications referred to in the aforementioned letter from C. A. Nelson, dated July 6, 1954, or as modified by mutual agreement. The aforementioned letters, addressed respectively to E. S. Norris and C. A. Nelson, are made a part hereof by reference.

(ii) The necessary aluminum cans, caps and alloy slugs will be furnished to the Contractor by the Commission without cost to the Contractor.

*Mod 9-10
11-f*

- 2. (See original contract)

ARTICLE II - SITE OF THE WORK

- 1. (See Original contract) *Principal site*
- 2. (See Original contract) *alteration at site*
- 3. (See original contract) *Transfer of site*
- 4. Non-Contract Activities

Mod. 5

The Contractor shall not engage in or permit others to engage in activities other than activities in performance of the work of this contract at any principal site of the work referred to in paragraph 1 above, without the approval of the Commission. Notwithstanding any other provision of this Contract, the Commission may, to the extent and upon such terms and conditions as it considers advisable and provides for in said writing, permit the Contractor, by written authorization, to engage in any such principal site in activities other than those incident to the work provided for above in this Contract.

- 5. (See original contract) *Request for approval*

ARTICLE III - TERM, EXPIRATION AND TERMINATION

*Mod 8
Mod 10
Mod 11 - 2/29/54*

1. The period of performance of the work under this contract shall commence on December 10, 1951, and, subject to the provisions of this Article, shall end on ~~May 31, 1955~~ *Aug 31, 1956*

- 2. (See original contract) *Termination*
 - a. (See original contract) *For default*
 - b. (See original contract) *For the convenience of the Government*

- c. (See original contract) *notice of Termination*
- d. (See original contract) *Entry by Government after default*
- e. (See original contract) *Terms of Settlement*
- 3. (See original contract) *Expiration*
- 4. (See original contract) *Claims in Favor of the Government*
- 5. (See original contract) *Settlement upon Termination or Expiration*

ARTICLE IV - CONSIDERATION

1. Compensation for Contractor's Services.

As full consideration for the performance by the Contractor of the work of this contract (including (i) profit on all items and for all work, and (ii) reimbursement for all costs and expenses listed hereunder as unallowable costs or otherwise not allowable under the terms of this contract) the Contractor shall receive from the Government:

Mod 8
Mod 9
Mod 10

- a. A fixed fee of one hundred seventy-two thousand one hundred fifty dollars (\$172,150) with respect to all of the work and services provided for prior to the work authorized in modification Nos. 7 & 8, and a fixed fee of thirty-seven thousand one hundred ninety dollars (\$37,190) with respect to all of the work and services provided for in subdivisions c and d of paragraph 1 of Article I, as authorized in modification Nos. 7 and 8.
- b. Payment for allowable costs as hereinafter provided.
- 2. (See original contract) *Basis for determination of allowable costs.*
- 3. (See original contract) *Examples of allowable costs*
 - a. (See original contract)
 - b. (See original contract)
 - c. (See original contract)
 - d. (See original contract)
 - e. (See original contract)
 - f. (See original contract)
 - g. (See original contract)

- h. (See original contract)
- i. (See original contract)
- j. (See original contract)
- k. (See original contract)
- l. (See original contract)
- m. (See original contract)
- n. (See original contract)
- o. (See original contract)
- p. (See original contract)
- q. (See original contract)
- r. (See original contract)

Mod-8

Mod 11

s. A provisional payment of \$7,000 per month, beginning with the month of July 1954, for procurement, administrative, and accounting services (hereafter referred to as Division Prorate) fairly allocable to the work under this contract. The provisional payment shall be subject to adjustment to actual cost determined at the completion of the scope of work covered under Article I, or June 30, 1955, whichever shall occur earlier. The actual cost of Division Prorate shall be allocated to this contract in the following manner:

(i) The total cost of work performed during the period of this contract (or the 12-month period ending June 30, 1955, whichever applies) divided by the total cost of all work performed by the Contractor's Atomic Energy Division for the same period equals the percentage this contract work bears to all Atomic Energy Division work.

(ii) The percentage determined in (i) above times the actual cost of Division Prorate for the period equals the Division Prorate cost allocable to this contract,

If the provisional payments exceed the actual cost of Division Prorate as determined above, the excess of such payments over actual cost shall be refunded to the Commission. If actual cost exceeds the provisional payments, an additional payment for such excess shall be made to the Contractor.

Mod. 6
Mod. 9

u. Items of cost which are not expressly excluded by other provisions of this contract and which are specifically certified in writing by the Commission as allowable costs hereunder.

4. (See original contract) *Examples of Unallowable Costs*

- a. (See original contract)
- b. (See original contract)
- c. (See original contract)
- d. (See original contract)
- e. (See original contract)
- f. (See original contract)
- G. (See original contract)
- h. (See original contract)
- i. (See original contract)
- j. (See original contract)
- k. (See original contract)
- l. (See original contract)
- m. (See original contract)
- n. (See original contract)
- o. (See original contract)
- p. (See original contract)
- q. (See original contract)

Mod. 8

r. Bad debts, including expenses of collection, and provision for bad debts arising out of the Contractor's own business.

s. Bonuses, and similar compensation under any other name, which are not consistent with a practice so established as to constitute a condition of employment.

t. General research, except as specifically provided for in this contract.

u. Legal, accounting, and consulting services, and related expenses incurred in connection with organization or reorganization, prosecution of patent infringement litigation, defense of anti-trust suits, and the prosecution of claims against the United States.

v. Depreciation or depletion in excess of that based on expected useful life and cost of acquisition of the related fixed assets less estimated salvage value at the end of the expected useful life. Amortization or depreciation of unrealized appreciation of values of assets or of assets fully amortized or depreciated on the Contractor's books of account is unallowable. In respect to emergency facilities covered by Certificates of Necessity, acceleration of depreciation in excess of that based on their reasonable economic life is unallowable.

w. Maintenance, depreciation, and other costs incidental to the Contractor's excess, facilities (including machinery and equipment) other than reasonable standby facilities.

x. Premiums for insurance on the lives of directors, officers, proprietors, or other persons, where the Contractor is the beneficiary directly or indirectly.

y. Selling and distribution activities and related expenses not applicable to the contract products or services.

z. Taxes and expenses in connection with financing, refinancing, or refunding operations, including the listing of securities on exchanges.

5. Payment:

Mod 8
Mod 9
a. Payment of the Fixed Fee. Payment of ninety per cent (90%) of the fixed fee of one hundred seventy-two thousand one hundred fifty dollar (\$172,150) set forth in subdivision a of paragraph 1 of this Article shall be made by the Government monthly in amounts based on the percentage of the completion of the work hereunder, as determined from estimates submitted to and approved by the Commission. Payment of the fixed fee of thirty-seven thousand one hundred ninety dollars (\$37,190) set forth in subdivision a of paragraph 1 of this Article shall be made in monthly installments as follows: ninety per cent (90%) of the monthly fixed fee (determined as one-eleventh of the fixed fee of thirty-seven thousand one hundred ninety dollars (\$37,190) shall become due and payable on the last day of each month beginning J 1954.

Mod 8
b. (i) Monthly Payments. The Government will make reimbursement payments for the allowable costs set forth in paragraph 3 of this Article monthly, or at the discretion of the Commission, at more frequent intervals.

Mod 11
(ii) Review and Approval of Costs Incurred. The Contractor shall prepare and submit annually, or for such other periods designated by the Contracting Officer, a certified voucher for the total of net expenditures accrued for the period covered by the voucher, and the Commission, after audit and appropriate adjustment, will approve such voucher. This approval by the Commission will constitute an acknowledgment by the Commission that the net costs incurred were allowable under the contract and that they had been recorded in the accounts maintained by the Contractor in accordance with Commission accounting policies, but will not relieve the Contractor of responsibility for the Commission's assets in its care, for appropriate subsequent adjustment or for errors later becoming known to the Commission.

c. Upon (i) the expiration of the period of performance of the work of the contract, (ii) completion of the work required by paragraph 3 of Article III, TERM, TERMINATION AND EXPIRATION, and (iii) the furnishing by the Contractor of a release in such form and with such exception as may be approved by the Commission of all claims against the Government under or arising out of this contract, accompanied by any accounting for Government-owned property required by Article V, GOVERNMENT PROPERTY, the Government shall promptly pay to the Contractor the unpaid balance of the consideration set forth in paragraph 1 of this Article (including any portion of the fixed fee withheld or not yet paid pursuant to subparagraph a. above) less deductions due under the terms of this contract and any sum required to settle any unsettled claim which the Government may have against the Contractor; provided, however, that the portion of the fixed fee of one hundred seventy-two thousand one hundred fifty dollars (\$172,150) withheld for work performed under subparagraphs a and b of paragraph 1 of Article I shall be paid to the Contractor upon completion of the work applicable to such fee.

Mod. 9

d. (See original contract)

e. (See original contract)

f. (See original contract)

g. (See original contract)

6. Limit of Government Liability.

a. Estimates. The (initially) estimated cost of the work under this contract, including the fixed fee set forth in subparagraph ~~xxx~~ a of paragraph 1 of this Article, is Three Million Two Hundred Fifty-Three Thousand Eight Hundred Ninety-Seven Dollars (\$3,253,897.00). It is understood that neither the Government nor the Contractor guarantees the correctness of the initial estimate of cost or any revision thereof, and that there shall be no adjustment in the amount of the Contractor's fixed fee by reason of any errors in the computation of estimated costs or revised estimated costs, or any difference between any estimated cost or revisions thereof and the actual cost of the work.

Mod. 5, 8, 9

9

b. ~~Obligations~~ (1) The Commission has obligated for this Contract from obligational authority available to it, the sum of Three Million Two Hundred Seventy-Two Thousand Dollars (\$3,272,000.00) with respect to the ~~work~~ provided for in subdivision a of paragraph 1 of Article I, and the sum of one million six hundred ninety-nine thousand one hundred fifty-three dollars (\$1,699,153) with respect to work provided for in subdivision b, c, and d of paragraph 1 of Article ~~xx~~ I. Each of said amounts may be increased by the Commission in its discretion, by written notice, from time to time.

Mod 11

(2) From time to time the Commission may notify the Contractor in writing (which writing may or may not be captioned "Financial Plans") of certain dollar ceilings to be applicable to all or various specified segments of the Contractor's activities under this Contract. Downward adjustments of dollar ceilings previously authorized under this subdivision (2) shall be promptly implemented by the Contractor, provided, however, that neither this provision nor subdivision (4) below shall preclude the Contractor from being compensated for work performed and related to Contractor costs and expenses incurred and commitments made, in good faith, in accordance with the previous notifications under this subdivision (2) and prior to its receipt and subsequent notification effecting the downward adjustments. MC

(3) The Contractor shall promptly notify the Commission in writing whenever it believes that any then monetary ceiling applicable pursuant to (1) or (2) above is insufficient, and its notice shall contain its reasons for its belief and its estimate of such insufficiency. C/K

(4) If and when the total amounts paid and then payable under this Contract to the Contractor excluding any fixed fee or fees, but including the Contractor's reasonable estimate of the total reimbursable costs involved in closing out and settling (all of its pertinent outstanding commitments) shall equal any then dollar limitation applicable to subdivision (2) above, the Contractor shall promptly notify the Commission accordingly in writing and shall not incur any further expenses nor perform further in connection with the item or items covered by the ceilings unless it receives a further written notice under said subdivision (2) which increases said ceilings. J-K

Mod-9
(5) If and when the total of amounts paid and then payable under this Contract to the Contractor (including the portion of the pertinent fee or fees reasonably estimated by the Contractor to have been earned to that time, and including the Contractor's reasonable estimate of the total allowable costs involved in closing out and settling all of its pertinent outstanding commitments) shall equal any then dollar limitation applicable pursuant to subdivision (1) above, the Contractor shall promptly notify the Commission accordingly in writing and shall not incur any further expenses nor perform further in connection with the work covered by the ceiling unless it receives the further notice under said subdivision (1) above which increases said ceiling. C/K

(6) Subject to the provision in subdivision (2) above, the total liability of the Government under this Contract shall accord with the pertinent monetary ceilings as established from time to time pursuant to subdivision (2) above. 11

Mod. 9

VIII, paragraphs 10, and article X.b.1

(7) Except as set forth in Article ~~III~~, the liability of the Government shall be limited to the Commission obligation specified in ~~this subparagraph~~ ^{subparagraph (1) a.}, as may be increased by the Commission by notice to the Contractor in writing.

ARTICLE V - GOVERNMENT PROPERTY

- 1. (See original contract)
 - a. (See original contract)
 - b. (See original contract)
- 2. (See Original contract)
- 3. (" " ")
- 4. (" " ")
- 5. (" " ")
- 6. (" " ")
- 7. (" " ")
- 8. (" " ")
- 9. (" " ")
- 10. (" " ")
 - a. (See original contract)
 - b. " " "
 - c. " " "
 - d. " " "

ARTICLE VI - OPTION IN THE GOVERNMENT

(See original contract)

ARTICLE VII - PATENTS

Mod. 9

1. Whenever any invention or discovery is made or conceived by the Contractor or its employees in the course of any of the work under this contract, the Contractor shall furnish the Commission with complete information thereon; and the Commission shall have the sole power to determine whether or not and where a patent application shall be filed, and to determine the disposition of the title and rights under any application or patent that may result; provided, however,

that the Contractor, in any event, shall retain at least a non-exclusive, irrevocable, royalty-free license under said invention, discovery, application, or patent, such license being limited to the manufacture, use, and sale for purposes other than use in the production or utilization of special nuclear material or atomic energy. Subject to the license retained by the Contractor, as provided in this Article, the judgment of the Commission on these matters shall be accepted as final; and the Contractor for itself and for its employees, agrees that the inventor or inventors will execute all documents and do all ~~the~~ things necessary or proper to carry out the ^{judgment} of the Commission.

2. No claim for pecuniary award or compensation under the provisions of the Atomic Energy Acts of 1946 and 1954 shall be asserted by the Contractor or its employees with respect to any invention or discovery made or conceived in the course of any of the work under this contract.

3. Except as otherwise authorized in writing by the Commission, the Contractor will obtain patent agreements to effectuate the purposes of paragraphs 1 and 2 of this Article from all persons who perform any part of the work under this contract, except such clerical and manual labor personnel as will not have access to technical data.

4. Except as otherwise authorized in writing by the Commission, the Contractor will insert in all subcontracts provisions making this Article applicable to the subcontractor and its employees.

5. The Contractor shall grant to the Government, to practice or have practiced, an irrevocable, non-exclusive license in and to any inventions (whether patented or not), secret processes, technical information and techniques of production, research and plant operation, which are directly utilized by the Contractor in the performance of the work of this contract. Such license shall apply to the manufacture, use and disposition of any article and material and to the use of any method or process. Such license shall be limited to governmental purposes related to (i) production of special nuclear material, (ii) utilization of special nuclear material, and (iii) utilization of atomic energy; provided, however, that the foregoing shall not limit the Government's right to sell, or cause to be sold, all products or by-products not used by or for the Government which result or remain from the use of any invention, process, information or technique to which such license applies.

HERE

(SEE PAGE 10-a) *Para. 6*

HERE

ARTICLE VIII - RECORDS AND ACCOUNTS

- 1. (See original contract)
- 2. (" " ")
- 3. (" " ")

ARTICLE VII - PATENTS (Continued)

Mod 9 6. The Contractor agrees to indemnify the Government, its officers, agents, servants and employees against liability (including costs and expenses incurred) arising from infringement or alleged infringement of any United States Letters Patent (not including liability, arising pursuant to Section 183, Title 35, (1952) U. S. Code, prior to the issuance of Letters Patent) occurring in the performance of this contract or arising by reason of the use of disposal by or for the account of the Government of items manufactured or supplied under this contract, except, however, infringement necessarily resulting from the Contractor's compliance with written specifications or provisions for other than standard parts or components manufactured or supplied by the Contractor or resulting from specific written instructions given by the Commission for the purpose of directing a manner of performance of the contract not normally utilized by the Contractor, provided that in the event of suit or claim for patent infringement, the Contractor shall be promptly notified and given full opportunity to participate in the defense against such suit or claim.

ARTICLE IX - PROCUREMENT AND SUBCONTRACTS

1. (See original contract)
 - a. (See original contract)
 - b. (" " ")
 - c. (" " ")
2. (See original contract)
3. (" " ")

ARTICLE X - CONDUCT OF THE WORK, INSPECTION AND REPORTS

1. (See original contract)
2. (" " ")
3. (" " ")
4. (" " ")

ARTICLE XI - CONSTRUCTION, ALTERATION OR REPAIR WORK

1. (See original contract)
2. (" " ")
 - a. (See original contract)
 - b. (See original contract)
 - c. (See original contract)
 - d. (" " ")
 - e. (" " ")
 - f. (" " ")
 - g. (" " ")

ARTICLE XII - EIGHT-HOUR LAW

(See original contract)

ARTICLE XIII - DISCLOSURE OF INFORMATION

- ind. 9*
1. Contractor's Duty to Safeguard Restricted Data. In the performance of the work under this contract the Contractor shall, in accordance with the Commission's security regulations and requirements,

be responsible for safeguarding Restricted Data and other classified matter and protecting against sabotage, espionage, loss and theft, the classified documents, materials, equipment, processes, etc., as well as other such material of high intrinsic or strategic value as may be in the Contractor's possession in connection with performance of work under the contract.

2. Regulations. The contractor agrees to conform to all security regulations and requirements of the Commission.

3. Definition of Restricted Data. The term "Restricted Data" as used in this Article, means all data concerning (1) design, manufacture, or utilization of atomic weapons; (2) the production of special nuclear material, or (3) the use of special nuclear material in the production of energy, but it shall not include data declassified or removed from Restricted Data category pursuant to Section 142 of the Atomic Energy Act of 1954.

4. Security Clearance of Personnel. Except as the Commission may authorize, in accordance with the Atomic Energy Act of 1946, as amended, including the Atomic Energy Act of 1954, the Contractor shall not permit any individual to have access to Restricted Data until the designated investigating agency shall have made an investigation and report to the Commission on the character, associations, and loyalty of such individual and the Commission shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense or security. As used in this paragraph the term "designated investigating agency" means the United States Civil Service Commission or the Federal Bureau of Investigation, or both, as determined pursuant to the provisions of the Atomic Energy Act of 1946, as amended, including the Atomic Energy Act of 1954.

5. Criminal Liability. It is understood that disclosure of information relating to the work or services ordered hereunder to any person not entitled to receive it, or failure to safeguard any restricted data or any "top secret", "Secret", or "confidential" matter that may come to the Contractor or any person under the Contractor's control in connection with work under this contract, any subject the Contractor, its agents, employees, or subcontractors to criminal liability under the laws of the United States. (See the Atomic Energy Act of 1946, 60 Stat. 755, as amended, including the Atomic Energy Act of 1954, Public Law 703, 83rd Congress, 2nd Session, Title 42, U.S.C. Sec. 1801 et. seq. See also Title 18, U.S.C. Sec 791-798 and Executive Order 10104 of February 1, 1950, 15 F.R. 597.

6. Subcontracts and Purchase Orders. Except as otherwise authorized in writing by the Contracting Officer, the Contractor shall insert provisions similar to the foregoing in all subcontracts and purchase orders under this contract.

Mod. 8

ARTICLE XIV - DISPUTES

Except as otherwise specifically provided in this contract, any dispute concerning a question of fact arising under or in connection with this contract shall be submitted in writing to and shall be decided by the Manager of the Commission's Savannah River Operations Office, or his duly authorized representative, who shall reduce his decision to writing and mail a copy of said decision to the Contractor; said decision shall be final and conclusive on the parties hereto, subject to the right of the Contractor to appeal, as provided for in the sentence next following. Within thirty days from the mailing of said decision, the Contractor may appeal, in writing, to the Commission, whose written decision thereon, or that of its duly authorized representative, representatives, or Board (but not including the Commission representative mentioned in the first sentence of this Article), duly authorized to determine such an appeal, shall be final and conclusive on the parties hereto, unless such decision is determined by a court of competent jurisdiction to have been fraudulent, capricious or arbitrary or so grossly erroneous as necessarily to imply bad faith, or not to be supported by substantial evidence. In the meantime, the Contractor shall diligently proceed with the work unless otherwise directed by the Contracting Officer.

ARTICLE XV - SECURITY ACTION (See original contract)

ARTICLE XVI - SCIENTIFIC AND TECHNICAL DATA (See original contract)

ARTICLE XVII - SOURCE AND FISSIONABLE MATERIALS (See original contract)

ARTICLE XVIII - GUARD AND FIRE FIGHTING FORCES (See original contract)

ARTICLE XIX - BONDS AND INSURANCE

1. (See original contract)

2. (" " " ")

ARTICLE XX - STATE AND LOCAL TAXES AND FEES (See original contract)

ARTICLE XXI - NON-DISCRIMINATION IN EMPLOYMENT (See original contract)

ARTICLE XXII - TECHNICAL AND PROFESSIONAL ASSISTANCE (See original contract)

ARTICLE XXIII - ASSIGNMENT (See original contract)

ARTICLE XXIV - LABOR DISPUTES (See original contract)

ARTICLE XXV - COVENANT AGAINST CONTINGENT FEES (See original contract)

ARTICLE XXVI - CONVICT LABOE (See original contract)

ARTICLE XXVII - WALSH-HEALEY ACT (See original contract)

ARTICLE XXVIII - DOMESTIC ARTICLES

1. (See original contract)
2. (" " ")

ARTICLE XXIX - OFFICIALS NOT TO BENEFIT (See original contract)

ARTICLE XXX - RENEGOTIATION (See original contract)

1. (See original contract)
2. (" " ")

ARTICLE XXXI - SAFETY AND ACCIDENT PREVENTION (See original contract)

ARTICLE XXXII - COMPLIANCE WITH LAWS (See original contract)

ARTICLE XXXIII - APPENDIX "A" (See original contract)

Amend. 7, 8

ARTICLE XXXIV - EXAMINATION OF RECORDS

1. The Contractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall have access to and the right to examine any directly pertinent books, documents, papers, and records of the Contractor involving transactions related to this Contract until the expiration of three (3) years after final payment under this Contract unless the Commission authorizes their prior disposition.

2. The Contractor further agrees to include in all subcontracts hereunder a provision to the effect that the subcontractor agrees that the Comptroller General of the United States or any of ^{his} duly authorized representatives shall have access to and the right to examine any directly pertinent books, documents, papers, and records of such subcontractor involving transactions related to the subcontract until the expiration of three (3) years after final payment under the subcontract. The term subcontract as used herein means any purchase order or agreement to perform all or any part of the work or to make or furnish any materials required for the performance of this Contract, but does not include (i) purchase orders not exceeding One Thousand Dollars (\$1,000. (ii) subcontracts or purchase orders for public utility services at rates established for uniform applicability to the general public, or (iii) subcontracts or purchase orders ~~of~~ for general inventory items not specifically identifiable with the work under this Contract.

3. Nothing in this Contract shall be deemed to preclude an audit by the General Accounting Office of any transaction under this Contract.

ARTICLE XXXV - CLAIMS AND LITIGATIONS

1. (See original contract)

2. (See original contract)
3. (" " ")
4. (" " ")
5. (" " ")

ARTICLE XXXVI - LETTER CONTRACT NO. AT(30-1)-1293 (See original contract)

ARTICLE XXXVII - CONTRACT APPROVAL (See original contract)

ARTICLE XXXVIII - DEFINITIONS (See original contract)

1. (See original contract)
2. (" " ")

mod-8

ARTICLE XXXIX - INSPECTION AND ACCEPTANCE

Final inspection and acceptance by the Commission of all uranium alloy slugs, canned by the Contractor pursuant to subdivision d of paragraph 1 of Article I, shall be performed by E. I. du Pont de Nemours and Company as the Commission's authorized representative, at the Commission's Savannah River Plant.

mod-8

ARTICLE XL - CHANGES

(a) Changes and Adjustment of Fee. The Contracting Officer may at any time and without notice to the sureties, if any, issue written direction requiring additions to the work covered by this contract or directing the omission of or variations in such work. If any such direction results in a material increase or decrease in the scope of the work described in article I, paragraph 1, subdivision c and d, an equitable adjustment of the fixed fee shall be agreed upon by the parties and the contract shall be modified accordingly in writing. Any claim by the Contractor for ~~an~~ adjustment under this Article must be asserted in writing within thirty (30) days from the date of receipt by the Contractor of the notification of change unless the Contracting Officer grants a further period of time. A failure to agree on an equitable adjustment under this Article shall be deemed to be a dispute within the meaning of the article entitled "Disputes."

(b) Work to Continue. Nothing contained in this Article shall excuse the Contractor from proceeding with the prosecution of the work in accordance with the requirements of any direction hereunder.

mod-9

ARTICLE XLI - INDEMNITY

Notwithstanding any other provision of this contract, it is agreed that the Contractor shall not be liable for, and the Commission shall, subject to the availability of funds, indemnify and hold the Contractor harmless against any loss, expense (including expense of litigation) or damage (including personal injury, disease, or death of persons, or damage to property) arising out of, based

on or caused by the radioactivity or fission or both of radioactive materials, products or by-products therefrom that may be involved in the performance of the work under this agreement. This obligation of the Commission shall apply only in those instances where the loss, expense or damage is not due to or caused by, in whole or in part, the negligence or bad faith on the part of any officer of the Contractor, or on the part of any representative or employee of the Contractor having direction or supervision of the whole or any part of the work undertaken by the Contractor hereunder, nor for wilful or negligent failure to follow procedures and standards approved and transmitted to the Contractor by the Commission for the handling and use of radioactive materials on the part of any of the aforementioned officers; further the obligation of the Commission shall apply only to the extent that the Contractor is not protected and made whole by insurance, it being understood that this obligation shall not be operative or applicable if, and to the extent, the Contractor is covered by insurance in respect of any such loss, expenses or damage and is not made whole thereby because of some breach by the Contractor of the terms or conditions of the insurance.

C

DOCUMENT NO.

SR-846 December 10, 1951 - 1/12, A

SR-845 January 25, 1952 - 1/12, A

SR-844 March 14, 1952 - 1/10, A

SR-843 April 9, 1952 - 1/10, A

SR-842 May 15, 1952 - 1/10, A

SR-841 June 26, 1952 - 1/11, A

SR-840 August 11, 1952 - 1/11, A

SR-839 September 30, 1952 - 1/12, A

SR-838 October 31, 1952 - 1/11, A

SR-837 November 30, 1952 - 1/11, A

SR-836 January 13, 1953 - 1/11, A

SR-848 December 10, 1951 - 1/8, A

SR-847 December 7, 1953 - 1/7, A

SYLVANIA ELECTRIC PRODUCTS, INC.
PRIME CONTRACT AT(30-1)-1293

Contract	Operating Costs & Plant & Equipment	Fixed Fee	Total Obligation
Original	\$ 3,133,897	\$ 120,000	\$ 3,253,897
Modification 1	736,103	No Change	3,990,000
Modification 2	No Change	No Change	3,990,000
Modification 3	No Change	No Change	3,990,000
Modification 4	No Change	No Change	3,990,000
Modification 5	229,850	52,150	4,272,000
Modification 6	No Change	No Change	4,272,000
Modification 7	99,500	No Change	4,371,500
Modification 8	562,463	37,190	4,971,153
<i>Mod 9</i>	\$ 4,761,813 <u>1,450,795</u> 6,212,608	209,340 <u>84,028</u> 193,368	4,971,153 <u>7,844,623</u> 6,505,976

SUMMARY OF NYOO AND SROO OBLIGATIONS UNDER THIS CONTRACT

NYOO

(Including original contract, Modifications 1 thru 6)

Operating Costs & Plant & Equipment	Fixed Fee	Total Obligation
\$ 4,099,850	172,150	4,272,000 ✓

SROO

(Includes Modifications 7 & 8)

\$ 661,963 ⁽¹⁾	37,190	699,153 ⁽²⁾
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Commission Obligation
Under The Contract

\$ 4,761,813	209,340	4,971,153
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(1) Included in this figure is an estimated \$30,000 for plant and equipment.

(2) : An estimated amount of \$50,000 for Commission furnished material is not included in amount obligated under the contract.

TM:NJD:vw

UNCLASSIFIED

December 17, 1954

gc

Dr. Walter E. Kingston
General Manager
Atomic Energy Division
Sylvania Electric Products, Inc.
P. O. Box 59
Bayside, Long Island, N. Y.

SR-TM-2043

Dear Dr. Kingston:

With reference to Contract AT(30-1)-1293, I would be pleased to receive by January 3, 1955, a formal proposal for its modification covering the pressure bond canning of a cumulative total of 335,000 LMF and "88" metal slugs through F. Y. 1956. For purposes of preparing the proposal, it may be assumed that dimensions and quality will be essentially as now specified, and that the Commission will continue to furnish the components now so supplied. The quantitative distribution between the two types will be approximately in the ratio of one LMF slug to 1.2 "88" slugs.

As an alternative, the design and construction of the semi-automatic canning machine proposed in Sylvania document DCF-4987 of June 17, 1954, should be included, together with associated production and cost schedules. It may be desirable for du Pont personnel to participate with you in the preliminary evaluation of proposed design of this automatic canning equipment. We will appreciate your continued cooperation in making the necessary information available to them as required.

I wish to express my sincere appreciation to you and to your organization for the effort and ingenuity expended in the recent successful crash canning program of "88" metal. The on-schedule completion was particularly significant in view of the unexpected technical difficulties encountered.

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date <u>4/8/03</u>	Determination: (Circle Very) <u>Completely yours,</u>
Authority: <u>ADDC/ADD</u>	1. Classification Unchanged
Name: <u>Black</u>	2. Classification changed to:
2nd Review Date <u>4/8/03</u>	<input checked="" type="radio"/> 3. Classification Canceled.
Authority: <u>ADD</u>	4. Other: <u>CG-NAP-2 920</u>
Name: <u>Thomas J. Dandrea</u>	

R. C. Blair
Deputy Manager

→ Cy 1B - G. W. Edwards/J. V. Vinciguerra

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RESTRICTED DATA
THIS DOCUMENT CONTAINS RESTRICTED DATA
UNCLASSIFIED
PERSON

~~SECRET~~
~~SECRET~~

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TM:KJD:efb

This document contains 2 pages

No. 3 of 12 copies, Series A

SR-TM-2514

JUN 30 1955

Dr. Walter E. Kingston
General Manager
Atomic Energy Division
Sylvania Electric Products, Inc.
Bayside, New York

Dear Dr. Kingston:

As recently discussed between representatives of our staffs, modifications in the SROO production program make it necessary to require immediate changes in the scope of work to be performed under Contract AF(30-1)-1293. Accordingly, this is to notify you that the production of acceptable IMF slugs is now in excess of 14,000 pieces, and no further requirements for this material exists. Therefore, the scope of work under the contract is changed so as to delete the requirement for the production of any additional IMF slugs.

Similarly, you are hereby notified that the production of acceptable thorium slugs is now in excess of 15,000 pieces, and our total maximum requirement for this material has been reduced to 30,000 pieces. Therefore, the scope of work is changed so as to delete the requirement for the production of thorium slugs in excess of a total of 30,000 pieces.

It is requested that your proposal covering these changes in scope of work under Contract AF(30-1)-1293 be submitted to this office by July 15, 1955. Your proposal should cover the modification in scope downward from the 115,000 pieces originally provided, your proposed adjustment in fee applicable to the changed scope of work, the proposed monthly production and funding schedules, value of inventories on hand at completion of work, standby cost or such other eventual disposition of the Hicksville property as you may suggest, and the several other programs covered in this letter.

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date <u>4/21/03</u>	Determination (Circle Number)
Authority: <input checked="" type="checkbox"/> ADC <input type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>Black</u>	2. Classification changed to:
2nd Review Date <u>4/21/03</u>	<input checked="" type="checkbox"/> Classification Canceled
Authority: <u>ADD</u>	4. Other: <u>CG-NMP-2</u> <u>2-00</u>
Name: <u>Vernon J. Rindner</u>	

~~DECLASSIFIED DATE~~
~~_____~~
~~_____~~
~~_____~~

GC
2/15/89

UNCLASSIFIED

~~SECRET~~

USDOE 017003

Dr. Kingston

JUN 30 1955

In recent discussions, de Font has informally requested from you a proposal covering the cost of pressure-bond canning of 2050 acceptable normal uranium slugs, on the tentative cumulative schedule of 50 by July 15, 300 by August 1, 600 by September 1, 1050 by October 15, and 2050 by November 7. This will officially confirm the request, and authorize you to begin exploratory work necessary to fulfill this commitment.

In addition, will you please include in your proposal the estimated costs for the preparation of 500 normal uranium cores for Hanford as referenced in Mr. Morris' letter of May 20 to D. Sturges, of Hanford Operations Office. These proposals should cover both the equipment and operations estimate and should be quoted as part of the total contract, but with an independent sub-total.

Relative to the proposal (letter Morris to Blair June 17, 1955) referencing the etching of thorium slugs, this will authorize you to proceed with this process. The necessary contractual amendments will be made as a part of the larger changes resulting from actions requested in the preceding paragraphs of this letter.

You are assured that the above requested changes in the thorium and IMF slug canning in no way reflect on the excellent quality of your production work for us to date, but are direct results of program changes.

Very truly yours,

R. G. Blair
Manager

Distribution:

- Cys. 1A & 2A - Addressee
- 3A - H. L. Kilburn
- 4A - W. H. Slaton
- 5A - J. V. Vinciguerra
- 6A - A. M. Coker
- 7A - Mgrs. File
- 8A - Matls Br. File
- 9A - " " Chron File
- 10A, 11A, 12A - T&P Rdg Files

RECEIVED
JUN 30 1955
R. G. BLAIR

DISPATCHED

A

Modification No. 10
 Supplemental Agreement to
 Contract No. AT(30-1)-1293

Modification No. 10

CONTRACTOR: Sylvania Electric Products, Inc.
 Bayside, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Revise the scope of work, change the
 term of the contract, and amend the
 fee payment provision.

	<u>Total</u>	<u>Portion Applicable to Savannah River Operations Office</u>
Previous Direct Cost	\$6,212,608	\$2,112,758
This Modification (decrease)	<u>765,114</u>	<u>765,114</u>
New Direct Cost	\$5,447,494	\$1,347,644
Previous Fixed Fee	\$ 293,368	\$ 121,218
This Modification (decrease)	<u>57,146</u>	<u>57,146</u>
New Fixed Fee	\$ 236,222	\$ 64,072
Total Obligated as of July 1, 1955	\$5,683,716	\$1,411,716

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 NUCLEAR INFORMATION

TOP SECRET
 CONFIDENTIAL
 SECRET
 All copies of RA, CA 4/28/04
 were never classified.

Sylvania 1293

Modification No. 10
Supplemental Agreement to
Contract No. AT(30-1)-1293

THIS SUPPLEMENTAL AGREEMENT, effective as of 12:01 A.M., July 1, 1955, except as otherwise specifically expressed herein, by and between the United States of America (hereinafter referred to as the Government), as represented by the United States Atomic Energy Commission (hereinafter referred to as the Commission), and Sylvania Electric Products, Inc. (hereinafter referred to as the Contractor);

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to modify said Contract, as heretofore modified, as hereinafter provided; and

WHEREAS, this supplemental agreement is authorized by the Atomic Energy Act of 1954;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore modified, is hereby modified further in the following respects:

1. Article I - SCOPE OF THE WORK paragraph 1 e is changed to read as follows:

"e. Effective November 15, 1954, the Contractor shall proceed with the manufacture, testing, inspection and delivery of metal and alloy slugs in accordance with the Contractor's proposal #2 as contained in his letters of November 8 and November 17, 1954, to Hood Worthington, E. I. du Pont de Nemours & Company, Inc., and as modified by the Contractor's proposal DCF #5527 dated January 11, 1955, accepted by the Commission's letter dated January 14, 1955, from Curtis A. Nelson to E. S. Norris and as further modified by the Commission's letters of June 30, 1955, and August 5, 1955, to Walter E. Kingston, and the Contractor's proposal dated August 13, 1955. The aforementioned proposals and letters are made a part hereof by reference."

2. In paragraph 1 of Article III - TERM, EXPIRATION AND TERMINATION, "June 30, 1956" is changed to "December 31, 1955".

3. Subdivision b of paragraph 1 of Article IV - CONSIDERATION, is changed to read as follows:

"b. A fixed fee of sixty-four thousand, seventy-two dollars (\$64,072) with respect to all of the work and services provided for in subdivisions c, d, and e of paragraph 1 of Article I as authorized in Modification Nos. 7, 8, 9 and 10."

4. Subdivision (ii) of paragraph 5 a of Article IV - CONSIDERATION, is changed to read as follows:

"(ii) Payment of the fixed fee of \$64,072 set forth in subdivision b of paragraph 1 of this Article IV shall be made in monthly installments as follows:

(a) For the period July 1, 1954, through June 30, 1955, 90% of the following monthly fixed fees shall become due and payable on the last day of each month as follows:

July through December - \$3,381 per month
January - \$4,525
February through June - \$5,671 per month

(b) For the period July 1, 1955, through October 31, 1955, 90% of a monthly fixed fee of \$2,726.50 shall become due and payable on the last day of each month. During November and December, 1955, no fee shall be paid the Contractor under the present scope of work."

5. Subdivision 1 (ii) of paragraph 6 b of Article IV - CONSIDERATION, is changed to read as follows:

"(ii) \$1,411,716 with respect to the work provided for in subdivisions c, d and e of paragraph 1 of Article I."

IN WITNESS WHEREOF, the parties have executed this supplemental agreement.

UNITED STATES OF AMERICA

By W. E. Kingston
Manager, SCOO
(Title)
United States Atomic Energy Commission
Date Oct. 19, 1955

Witnesses as to signature of Contractor:
Jennie K. Broathers
RFD #5, Merriwood Ct.
Huntington, N.Y.
(Address)

Gloria Bucherati
15 Sheridan Ct.
Plainview, L.I.
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.
By W. E. Kingston
W. E. Kingston, General Manager
Atomic Energy Division
(Title)
Date October 11, 1955

I, J. M. Dwyer, certify that I am the Asst. Secretary
of the corporation named as Contractor herein; that
D. E. Kingston who signed this modification on behalf of the
Contractor was then Manager, Atomic Energy Div. of said corporation;
that said modification was duly signed for and on behalf of said corporation
by authority of its governing body and is within the scope of its corporate
powers.

IN WITNESS WHEREOF, I have hereunto affixed my hand and seal
of said corporation.

J. M. Dwyer

(Corporate Seal)

~~CONFIDENTIAL~~
~~SECRET~~

FE:HD:sh

OCT 20 1955

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Mr. E. S. Morris, Controller
Atomic Energy Division
Sylvania Electric Products, Inc.
P. O. Box 59
Bayside, New York

When separated from enclosures, handle this document

~~CONFIDENTIAL~~
~~SECRET~~

(Insert proper title here)

Dear Mr. Morris:

A Financial Plan for the operation of your Hicksville Plant until December 31, 1955 under Modification 10 to Contract AT(30-1)-1293 is approved at the levels shown below. These costs are not to be exceeded without prior written approval from this office. You were initially authorized by my teletypes of June 30 and July 11 to incur costs to cover the work, pending modification of the contract and issuance of a financial plan.

<u>Operations</u>	
Operating Costs	\$ 350,470
Fixed Fee	10,926
Total Operations	\$ 361,396
<u>Other Operating Fund Requirements</u>	
Decrease in Stores Inventories	\$ (-) 48,501
Increase in Working Capital	41,953
Net Change	\$ (-) 6,548
<u>Fleet and Equipment</u>	\$ 87,494
Grand Total	\$ 442,322

The above amounts conform to your proposal of August 13, 1955 (Revised) except that under Operations, \$70,584 has been added to cover the balance of deferred charges carried over from FY 1955. Under Fleet and Equipment, \$75,834 obligated to you in FY 1955 for expenditures in FY 1956 has been added to your estimate for equipment costs for FY 1956.

The changes under Stores Inventories and Working Capital bring the levels of these items to zero at December 31, 1955.

~~CONFIDENTIAL~~
~~SECRET~~

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AT(30-1)-1293

~~CONFIDENTIAL~~
K. S. Harris

OCT 20 1955

Schedule "A" attached spreads the costs by months and lists the operations' costs by activities. The allotted amounts under the operations' activities are for planning purposes and may be adjusted by you as long as the total amount for operations' costs are not exceeded.

If changes are made in the program assigned to Sylvania which modify the scope and cost of the work contained in your proposal of August 13, a revised financial plan will be issued.

Yours sincerely,

A. C. Elair
Manager

Enclosures

Schedule "A" - Approved Sylvania
Financial Plan, FY 1956

CC: Manager w/encl SR-FB-354; Cy 3A
Davis/Kilburn w/encl SR-FB-354; Cy 4A
P. J. Hagelston w/encl SR-FB-354; Cy 5A
J. V. Vinciguerra w/encl SR-FB-354; Cy 6A ✓
B. C. Samples w/encl SR-FB-354; Cy 7A

~~CONFIDENTIAL~~
~~CONFIDENTIAL~~

USDOE 017468

0/7/55

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APPROVED FY 1956 FINANCIAL PLAN
FOR SYLVANIA ELECTRIC PRODUCTS, INC.
OPERATION OF THE HICKSVILLE PLANT
OCTOBER, 1955

Schedule "A"

SR-FB-354

This document consists of 2 pages
No. 6 of 11 copies Series 8
October November December

Activity No.		Total FY-1956	Actual Costs Thru. August	September	October	November	December
2421	<u>Thorium</u>						
	Operating Costs	\$ 83,866	\$ 67,328	\$ 16,538	\$ -0-	\$ -0-	\$ -0-
	Fixed Fee	5,757	5,085	672	-0-	-0-	-0-
	Deferred Costs	70,584	70,584	-0-	-0-	-0-	-0-
	Total Thorium	\$160,207	\$142,997	\$ 17,210	\$ -0-	\$ -0-	\$ -0-
2310	<u>H. F.</u>						
	Operating Costs	\$ 77,886	\$ 34,307	\$ 26,430	\$ 17,149	-0-	-0-
	Fixed Fee	4,324	2,331	1,073	920	-0-	-0-
	Total H. F.	\$ 82,210	\$ 36,638	\$ 27,503	\$ 18,069	\$ -0-	\$ -0-
2704	<u>Hanford 500</u>						
	Operating Costs	\$ 12,849	\$ -0-	\$ -0-	\$ 12,849	\$ -0-	\$ -0-
	Fixed Fee	685	-0-	-0-	685	-0-	-0-
	Total 500	\$ 13,534	\$ -0-	\$ -0-	\$ 13,534	\$ -0-	\$ -0-
	<u>Hanford Proposal</u>						
	Operating Costs	\$ 2,580	\$ -0-	\$ -0-	\$ 2,580	\$ -0-	\$ -0-
	Fixed Fee	140	-0-	-0-	140	-0-	-0-
	Total	\$ 2,720	\$ -0-	\$ -0-	\$ 2,720	\$ -0-	\$ -0-
2540	<u>Standby</u>	\$102,705	\$ -0-	\$ 13,275	\$ 17,890	\$ 35,790	\$ 35,750
	<u>Total Operations</u>						
	Operating Costs	\$177,181	\$101,635	\$ 42,968	\$ 32,578	\$ -0-	\$ -0-
	Fixed Fee	10,906	7,416	1,745	1,745	-0-	-0-
	Deferred Changes	70,584	70,584	-0-	-0-	-0-	-0-
	Standby	102,705	-0-	13,275	17,890	35,790	35,750
	Total Auth. Oper. Costs FY-1956	\$361,376	\$179,635	\$ 57,988	\$ 52,213	\$ 35,790	\$ 35,750

USDOE 017469

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Document contains Restricted Data

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DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW

1st Review Date 4/10/03
 Authority: ADC ADD
 Name: Black
 2nd Review Date 4/10/03
 Authority: ADD
 Name: Kevin J. Hendon

Determination (Circle Number)
 1. Classification Unchanged
 2. Classification changed to:
 3. Classification Canceled.
 4. Other: CG NRC

Modification No. 12
Supplemental Agreement to
Contract No. AT(30-1)-1293

Modification No. 12

CONTRACTOR:

Sylvania Electric Products, Inc.
Bayside, Long Island, New York

SUPPLEMENTAL AGREEMENT TO:

Amend the contract to provide for
work for other Commission offices
or their cost-type Contractors, by
means of an Appendix "C" Agreement.

NARA II
R: 526
Accession 4NN 326-57-00
AEC Form Materials Div. Form. 144
Box 38
11/1/57

Modification No. 12
 Supplemental Agreement to
 Contract No. AT(30-1)-1293

THIS SUPPLEMENTAL AGREEMENT, effective as of 12:01 a.m., November 1, 1955, by and between the United States of America (hereinafter referred to as the Government), as represented by the United States Atomic Energy Commission (hereinafter referred to as the Commission), and Sylvania Electric Products, Inc., (hereinafter referred to as the Contractor);

WITNESSETH THAT:

WHEREAS, the Government and the Contractor, as of the 10th day of December, 1951, entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain research and development work; and

WHEREAS, the parties desire to modify said contract, as heretofore modified, as hereinafter provided; and

WHEREAS, this supplemental agreement is authorized by the Atomic Energy Act of 1954;

NOW, THEREFORE, Contract No. AT(30-1)-1293, as heretofore modified, is hereby modified further in the following respects only:

1. Paragraph 2 of Article I - SCOPE OF THE WORK, is renumbered paragraph 3. The following new paragraph 2 is added to Article I.

"2. a. The work provided for in paragraph 1, above, is under the jurisdiction of the Commission's Savannah River Operations Office. This paragraph 2 is concerned only with such other cost-type work (if any) to be performed in the Hicksville plant, whether or not of the same type or character, as provided for in paragraph 1, above, as is agreed to by the Contractor and the Commission, or by the Contractor and a Sponsor (defined as a cost-type contractor of the Commission) with the written approval of the Commission, by execution of the document provided for in Appendix "C". Except to the extent otherwise specifically provided for in this contract, including the documents provided for in Appendix "C", all of the provisions of this contract shall be applicable with respect to work under this paragraph 2.

"b. Except as otherwise authorized by the Commission, it is understood that Commission or Sponsor agreements referred to in this paragraph 2 are the only vehicles whereby the Contractor may perform work as described in a, above, in the Hicksville plant.

"c. Prior to formal initiation of an Appendix "C" agreement with a Sponsor or Commission office, the Contractor shall notify the Commission's Savannah River Operations Office, in writing, of the scope of work and terms of the intended agreement."

NARA II
 RG 326
 Accession 4NN 326-87-002
 AEC Prod Materials Div Corr. 1947
 Box 38

2. Subparagraph c of paragraph 1 of Article IV - CONSIDERATION, which reads,

"Payment for allowable costs as hereinafter provided.", is redesignated subparagraph d of said paragraph, and the following new subparagraph c is added to paragraph 1:

"c. With respect to the work provided for in each agreement adding work under paragraph 2 of Article I, the Contractor shall be paid the respective fixed fee stipulated in said agreement."

3. Add the following subparagraph to paragraph 5 of Article IV - CONSIDERATION:

"h. Payment of all costs and fixed fee under any Appendix "C" agreement shall be made to the Contractor by the Commission office or Sponsor executing the agreement in accordance with the provisions of said agreement."

4. Add the following subparagraph to paragraph 6 of Article IV - CONSIDERATION:

"c. The above provisions of this paragraph 6 establishing estimates and obligating funds do not include any work added under paragraph 2 of Article I. In connection with each agreement adding work under paragraph 2 of Article I, the Commission in the case of a Commission agreement, and the Sponsor in the case of a Sponsor agreement, will obligate (if the Commission) or allocate (if a Sponsor) in regard to the work provided for in the said agreement, the sum therein specified."

5. Paragraph 1 of Article VII - PATENTS is amended to read as follows:

"1. Whenever any invention or discovery is made or conceived by the Contractor or its employees in the course of, in connection with, or under the terms of this contract, the Contractor shall furnish the Commission with complete information thereon; and the Commission shall have the sole power to determine whether or not and where a patent application shall be filed; and to determine the disposition of the title and rights under any application or patent that may result; provided, however, that with respect to such inventions or discoveries made or conceived in the course of, in connection with, or under the terms of paragraph 1 of Article I, the Contractor, in any event, shall retain at least a nonexclusive, irrevocable, royalty-free license under said invention, discovery, application, or patent, such license being limited to the manufacture, use and sale for purposes other than use in the production or utilization of special nuclear material or atomic energy. Subject to the license retained by the Contractor, as provided in this Article, the judgment of the Commission on these matters shall be accepted as final; and the Contractor for itself and for its employees, agrees that the inventor or inventors will execute all documents and do all things necessary or proper to carry out the judgment of the Commission.

NAPA II
ES 326
Accession 4NN 326-87-00
AEC Fed. Materials Div. Cor. 194
Box 38

IN WITNESS WHEREOF, the parties hereto have executed this Supplemental Agreement as of the day and year first above written:

UNITED STATES OF AMERICA

By: UNITED STATES ATOMIC ENERGY COMMISSION

/s/ R. C. Blair

Witnesses:

/s/ Jennie K. Broothers

RFD 5 - Huntington, N. Y.
(Address)

/s/ Beatrice E. Kalmus

199-04 24 Road, Bayside, N. Y.

SYLVANIA ELECTRIC PRODUCTS, INC.

By: /s/ W. E. Kingston

W. E. Kingston, General Manager
Title: Atomic Energy Division

I, William F. Rueger, certify that I am the Ass't. Secretary of the corporation named as Contractor herein; that W. E. Kingston who signed this contract on behalf of the Contractor General Manager was then Atomic Energy Div. of said corporation; that said contract was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

IN WITNESS WHEREOF, I have hereunto affixed by hand and the seal of said corporation.

/s/ William F. Rueger

(Corporate Seal)

NARA II
EG 526
Accession 4NN 326-87-00
AEC Prod Materials Div Corr 94
Box 38

UNCLASSIFIED

Files November 21, 1955
 THRU : H. L. Kilburn, Director, Technical & Production Division
 Winston Davis, Deputy Manager, SROO
 Paul J. Hagelston, Chief, Reactor Materials Branch SR-TM-2878
 Technical & Production Division

MEETING AT NYOO RE SYLVANIA

This document consists of 2 pages

SYMBOL: TM:PJH:jfd

No. 3 of 7 copies, Series A

At a meeting held at NYOO on November 15, 1955, the following were present:

NYOO
 Bill Harris, Industrial Hygiene
 Cy Braiden, Accountability
 Bob Kirkman, Security
 Pete Murphy, Security
 Joe Clark, Deputy Manager *
 Warren Donnelly, Contracts
 Merril Eisenbud, Manager **

SROO
 Lawrence D. Low, Security
 J. V. Vinciguerra, Administrative
 N. J. Donahue, Technical
 Paul J. Hagelston, Technical

* present all but first ten minutes of meeting
 ** sat in for last few minutes of meeting to hear summary

I summarized the SROO position on Hicksville, namely that we feel that it should be solely an SROO facility and that all "outside work" done there in the future should be placed under an Appendix C arrangement under Contract 1293. This proposal was not specifically tied in with the current problem on U-235 at Hicksville but it became quite evident that the tie in was there; much of the ensuing discussion therefore centered on the U-235 problem. Prior to Joe Clark's entrance into the meeting I was asked why NYOO should not take over Hicksville so that it would have responsibility for all Sylvania work. I pointed out that SROO considers Hicksville to be a part of its fundamental production chain strictly comparable, for example, to the 300 Area at SRP. I emphasized that so long as this condition persists our position will be that we cannot turn over responsibility for Hicksville but that when, as and if our production interest in Hicksville ceases we would probably wish to make other arrangements. Shortly after Joe Clark entered the meeting he asked the same question and was given the same answers and agreed with the wisdom of this viewpoint.

DEPARTMENT OF ENERGY SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date: <u>4/8/03</u>	Determination (Circle Number)
Authority: <u>EA/DC/ADD</u>	1. Classification Unchanged
Name: <u>Gallack</u>	2. Classification changed to:
2nd Review Date: <u>4/8/03</u>	3. Classification Canceled
Authority: <u>ADD</u>	4. Other: <u>CG-NAP-2</u> 980
Name: <u>William J. Broder</u>	

UNCLASSIFIED

~~RESTRICTED DATA~~
~~RESTRICTED DATA~~

~~This document contains information that is defined in the Atomic Energy Act of 1954 as restricted data and is being disseminated only to those persons authorized to receive it.~~

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~~SECRET~~

Files

- 2 -

November 21, 1955

After a rather lengthy discussion of all the pros and cons of the total situation the following agreements were arrived at.

1. In the future all work at Hicksville would be done under Contract 1293, with all outside work (work not being done for the SROO) accomplished under an Appendix C arrangement between the interested party and Sylvania but under the general provisions of Contract 1293. It was understood that it may be necessary and desirable that certain features of the administrative responsibility under SROO be taken care of, at SROO's request, by NYOO, e.g., Security, Health and Safety, Finance, etc. It was understood however that such features would be carried out as a service to SROO and action as indicated would be taken by SROO on the basis of NYOO recommendations.
2. As to the U-235 problem it was agreed that the basic responsibility for the preparation of the final report would rest with NYOO. SROO will prepare the SF report which would be incorporated by NYOO into its total report, issued by Merril Eisenbud, sent to Blair for concurrence and/or correction and then issued.
3. Joe Clark pointed out that the report as outlined in 2. above will, of course, outline the reasons leading to the U-235 problem and must therefore include a summary of corrective action taken by both SROO and NYOO.

Basic reasons for the problem were agreed on as being (a) poor organization at Sylvania during the time the job was in progress, and (b) failure to follow instructions given by the Commission as per the feasibility report. For the purpose of applying corrective action it was agreed that a meeting would be held the following day with Kingston of Sylvania in order to convey our interpretation of the basic causes of the problem to him. Such a meeting was set up and is reported in a separate memorandum.

Merril Eisenbud, manager at NYOO, came into the meeting and the above points were summarized to him. He asked the question reported on above re why NYOO should not take over both Sylvania plants and was satisfied with the answers given to the others. He then agreed on all the above conclusions and recommendations.

cc: L. D. Low, Security
J. V. Vinciguerra, Administrative

~~SECRET~~
USDOE 017417

~~SECRET~~

UNCLASSIFIED

November 23, 1955

THRU : Files
H. L. Kilburn, Director, Technical & Production Division
Winston Davis, Deputy Manager, SROO
Paul J. Hagelston, Chief, Reactor Materials Branch
Technical & Production Division

SR-TM-2879

MEETING AT BAYSIDE RE SYLVANIA - HICKSVILLE

This document consists of 2 pages

SYMBOL: TM:PJH:jfd

No. 3 of 7 Copies, Series A

Reference is made to memorandum of November 21, Hagelston to files,
Subject: Meeting at NYOO re Sylvania.

In the referenced memorandum recommendation was made that a meeting
be set up with Sylvania management. This meeting was held at Sylvania
Bayside on November 16, 1955 with the following present.

Sylvania

W. E. Kingston, General Manager, AED
Boyd Metz, Plant Manager, Hicksville

NYOO

Bill Harris, Industrial Hygiene
Warren Donnelly, Contracts

SROO

Lawrence D. Low, Security
N. J. Donahue, Technical
Paul J. Hagelston, Technical

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date <u>4/8/03</u>	Determination (Circle Number)
Authority: <u>ADDC</u> <u>ADD</u>	1. Classification Unchanged
Name: <u>Callack</u>	2. Classification changed to:
2nd Review Date <u>4/8/03</u>	3. Classification Canceled.
Authority: <u>ADD</u>	4. Other: <u>CG-NMP-2</u> <u>2-cv</u>
Name: <u>Wm. J. Anderson</u>	

I opened the meeting by reviewing the Commission's concept of doing
business with industry from the standpoint that it was felt contractor
organization and technical proficiency was strictly contractor business.
We felt however that when indications were that these contractor
responsibilities may not have been handled to the best interest of the
Commission and the work contracted for we then had the responsibility to
comment upon our opinions concerning the basic problems. It was with
this purpose in mind that we had met, I pointed out. Kingston assured
us that he was happy to hear constructive criticism and that in fact he
had already recognized certain shortcomings in the handling of the
recent job. I told him then we felt the basic reasons for the U-235
problem were (a) poor industrial organization at Sylvania during the
time the job was in progress, and (b) failure to follow instructions
given by the Commission as per the feasibility report.

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USDOE 017413

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- 2 -

November 23, 1955

Kingston assured us that upon recognizing point (a) he had altered his organization, effective September 1, 1955, to bring the situation into line. He agreed that the conduct of the job itself may have been "sloppy", pointed out that he was not absolving himself of the over-all responsibility for this condition, but that he had felt during the course of the job that he had reason to expect that his research manager in charge of the job would have carried it out proficiently. Kingston in no way evaded the issue of responsibility, in fact he strongly implied that further organizational changes were in the wind as a result of the U-235 problem.

Kingston reassured us that he would leave no stone unturned in coming up with the material in question.

We then summarized our intent that all work in the future at Hicksville be done under 1293 and that SROO will institute Appendix C arrangements to handle "outside work" at that facility. Kingston and Metz felt that this was an excellent concept.

It was further agreed that L. D. Low and Bob Kirkman (NYOO Security) would work out details for handling security at Hicksville and that J. Vinciguerra would gear our contractual arrangements with those of NYOO. Industrial Hygiene - Health Physics problems would be worked out between SROO and NYOO.

cc: L. D. Low, Security
J. V. Vinciguerra, Administrative

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USDOE 017414

SAVANNAH RIVER OPERATIONS OFFICE

CONTRACT DATA BOOK

DECEMBER 31, 1955

EXTRACT

USDOE 013592

Plant B

SAVANNAH RIVER OPERATIONS OFFICE

1. Name and Address

Sylvania Electric Products, Inc.
1740 Broadway
New York, New York

2. Contract Number

AT(30-1)-1293

3. Statement of Work

This contract was transferred from New York Operations Office to Savannah River Operations Office effective July 1, 1954.

Sylvania shall manufacture, test, inspect and deliver to SRP metal and alloy slugs canned in aluminum jackets.

4. Term of Contract

December 10, 1951, through April 1956 (See Item 6)

5. Type of Contract

Cost-plus-fixed-fee

6. Amount of Contract

Period	Cost of Work (Exclusive of Fixed Fee)	Fixed Fee
12/10/51 - 6/30/54 (NYOO)	\$4,099,850	\$ 172,150
7/1/54 - 4/30/56 (SROO)	1,757,786	81,072
	5,857,636	253,222

Due to a reduction in program requirements the estimated cost of work and fixed fee was reduced. Sylvania's proposal (Modification No. 13) to extend work through June 1956 is under consideration.

7. Basis of Award

The services for this contract were procured by negotiation since the scope of work precludes arriving at a fixed price which would represent a reasonable estimate for the cost of work.

8. Remarks

A portion of the Hicksville Plant comprising approximately 2,000 sq. ft. has been released to Sylvania for use in performing outside work and will in no way be connected with work under Contract AT(30-1)-1293.

Sylvania Electric Products, Inc.

The contract has been recently amended by Modification No. 12 to permit Sylvania to perform work for other Commission offices or their cost-type contractors by means of an Appendix "C" Agreement to Contract No. AT(30-1)-1293.

9. Payments made as of 12/31/55

	<u>NYOO Scope of Work</u>	
	<u>Fee</u>	<u>Cost</u>
FY 1952	\$ -	\$ 607,884
FY 1953	112,225	2,283,602
FY 1954	<u>55,035</u>	<u>1,051,194</u>
Total	\$ 167,260	\$ 2,942,680

	<u>SROO Scope of Work</u>	
FY 1955	\$ 44,471	\$ 795,716
FY 1956 (Through 12/31/55)	<u>19,063</u>	<u>440,225</u>
Total	\$ 63,534	\$ 1,235,941

1-3-1

SYLVANIA ELECTRIC PRODUCTS INC.
Atomic Energy Division
Bayside, New York

"Document transmitted herewith
contains ~~information~~"

January 20, 1956

R. C. Blair, Manager
Savannah River Operations Office
U. S. Atomic Energy Commission
P. O. Box A
Aiken, South Carolina

Attention: Paul J. Hagelston, Chief
Reactor Materials Branch

Gentlemen:

I am pleased to enclose a proposal and a monthly funding and delivery schedule as requested in your telegram of December 29. We have retained the separation between the original HF program and the Mark VII programs (See Schedule 3) for ease of comparison with our proposal of November 25, which is the basis of Modification No. 11 to the contract.

In our November 25 proposal the Mark VII Program and "Available for Other Work" accounted for \$381,683 cost plus \$15,230 fee. In the proposal these items are replaced by the following:

	<u>Cost</u>	<u>Fee Claimed</u>
Mark VII Canning	\$741,902	\$44,514
Mark VII Drilling	294,756	17,685
HF Equipment Installation	8,075	485
Total	\$1,044,733	\$62,684
Less previous proposal	381,683	15,230
Net Increase	\$ 663,050	\$47,454

The "Net Increase" figures should be added to the contract.

We estimate the June 30, 1956 stores inventory level at \$45,000.

We have not completed three programs of our November 25 proposal nor have we provided for them in the enclosed schedule. These are "Hanford 500", "Hanford Wafer" and "Stripping".

Pending a decision on scheduling these, I suggest we assume they will be completed in July 1956.

Very truly yours,
SYLVANIA ELECTRIC PRODUCTS INC.

E. S. Norris
E. S. Norris, Controller
Atomic Energy Division

FSN/gb
Encl. Schedule 1 & 2 (Unclassified)
Schedule 3 (DCF 7/6125)

"When separated from enclosures, handle
this document as UNCLASSIFIED".

USDOE 017532

OFFICE MEMORANDUM - UNITED STATES GOVERNMENT

Date: January 23, 1956 ✓

FROM : R. C. Blair, Manager
Savannah RiverSUBJECT: PLACING WORK UNDER CONTRACT NO. AT(30-1)-1293 WITH SYLVANIA
ELECTRIC PRODUCTS, INC., AT THE HICKSVILLE PLANT

SYMBOL : AG:JVV:mep

The subject contract has recently been amended by the attached Modification No. 12 to permit other Commission offices or their cost-type contractors (the latter referred to as Sponsors) to place work directly with Sylvania at the Hicksville Plant through the medium of the attached Appendix "C" agreement form.

Each Appendix "C" arrangement will be subject to a priority for SROO work under this contract.

Unless otherwise agreed, SROO reserves the responsibility for SS-- Accountability, Financial Accounting and Auditing, Security, Property, Health and Safety and other administrative responsibilities in connection with each such Appendix "C" arrangement.

The following procedures will be followed in the placing and handling of such non-SROO work under the contract:

1. In accordance with paragraph 2.c. of Article I in Modification No. 12 to Contract No. AT(30-1)-1293, Sylvania Electric Products, Inc., shall notify SROO in writing of the terms and conditions of each proposed Appendix "C" agreement between Sylvania and the Commission or Sponsor. SROO will promptly notify the responsible Commission office of its concurrence or of any circumstances or conditions which make it inadvisable for them to execute or approve the agreement.
2. The responsible Commission office will notify SROO of the supporting services which the responsible Commission office wishes to supply.

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EG 226

Accession 4 NN 326-87-002

AEC Form Materials Div. Corr. 1947

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3. Upon execution by all parties, a conformed copy of the agreement shall be furnished to SROO by the responsible Commission office. At the same time the names, business locations, and telephone numbers of the Commission and sponsor liaison personnel to be contacted, if necessary, shall be forwarded. The SROO liaison personnel are identified in the attached paper.

4. Each modification of an agreement is to be processed in the same manner as the agreement.

5. Unless otherwise agreed, SROO will not be responsible for the technical aspects or the classification of the work under any of the agreements; for example, our procurement services, if requested, will not entail any exercise of judgment on the part of SROO concerning the technical need or sufficiency of an item of equipment to be purchased for the work.

6. Each Appendix "C" agreement with a Commission office is to provide that obligations will be recorded and payment for work performed will be made directly to Sylvania by the Commission office executing the agreement. In the case of sponsor agreements, billings and payments will be handled directly between Sylvania and the sponsors.

Enclosures:

- 1. Appendix "C" - Mod. No. 12
- 2. List of SROO Liaison Personnel

NARA II
 R-326
 Accession 4NN 326-57-007
 AIC Food Materials Div. Comm. 547
 Box 28
 11-1-56

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ACTIVE CONTRACTS WITH THE SYLVANIA ELECTRIC PRODUCTS, INC.
(\$25,000 or more)
As of July 31, 1956

PART I

~~RESTRICTED DATA~~

The information contained herein is classified as Restricted Data in the Atomic Energy Act of 1954. Its transmission or the disclosure of its contents in any manner to unauthorized persons is prohibited.

Operations Office	Contract No. & Work Location	Type of Work	Description of Services	Accumulated		
				Contract Amount	Date Start	Date Completion
NYOO	AT-(30-1)-GEN 366 Bayside & Hicksville, L. I., N.Y.	R&D	Research in connection with fuel elements, powder metallurgy, and uranium processing for various operations offices and the Divisions of Research and Reactor Development	\$ 7,966,000	7-1-48	-
SROO	AT-(30-1)-1293 Hicksville, L. I., N. Y.	OPERATING	Present services consist of canning of normal and enriched fuel elements. In prior years, contract covered research investigation in connection with preparation of feed and special materials	6,110,858	12-10-51	-
COO	AT-(30-1)-GEN 366 SC-AT-24 Bayside, L.I, NY	R&D	Classified R&D work in connection with GE-ANP program	172,393	4-19-54	2-28-57
ALOO	AT-(29-1)-789 SC-72-4212 Woburn, Mass.	SUPPLY	Classified material	166,100	4-11-56	12-20-56
ALOO	AT-(29-1)-789 SC-72-3878 Woburn, Mass.	SUPPLY	Classified material	46,010	2-6-56	11-1-56
ALOO	AT-(29-1)-789 SC-53-3593 Emporium, Penna.	R&D	Development of an XSA-311 Tube	58,973	1-24-56	4-15-57

USDOE 016979

OSAR00000040

DEPARTMENT OF ENERGY DECLASSIFICATION REVIEW	
1ST REVIEW DATE: 3/19/83	DETERMINATION (CIRCLE NUMBER(S))
AUTHORITY: 51 ACQ 101.6 ADD	1. CLASSIFICATION RETAINED
NAME: [Signature]	2. CLASSIFICATION CHANGED TO:
	3. CONTAINS NO DOE CLASSIFIED INFO
	4. COORDINATE WITH:
2ND REVIEW DATE: 3/24/83	5. CLASSIFICATION CANCELLED
AUTHORITY: 51 ACQ 101.6 ADD	6. CLASSIFIED INFO BRACKETED
NAME: [Signature]	7. OTHER (SPECIFY):

~~CONFIDENTIAL~~

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3,100

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PART II

COMPLETED CONTRACTS WITH THE SYLVANIA ELECTRIC PRODUCTS, INC.
(\$25,000 or more)

Operations Office	Contract No. & Work Location	Type of Work	Description of Services	Accumulated Contract Amount	Dates	
					Start	Completion
NYOO	AT-(30-1)-GEN 367 Bayside, L.I. N.Y.	R&D	Research & experimental activities in field of physical metallurgy	\$ 381,200	4-1-53	3-31-54
ALOO	AT-(29-1)-789, RS-8202 Buffalo, N. Y.	SUPPLY	Testers	465,574	1-29-53	9-8-54
ALOO	AT-(29-1)-789 PP-1003 Williamsport, Pa.	SUPPLY	Testers	72,301	1-22-53	3-31-53
COO	AT-(30-1)-GEN 366 SC-AT-23 Bayside, L.I. N.Y.	R&D	-	43,809	2-1-54	6-30-54
COO	AT-(11)-229 Bayside, L.I. N.Y.	R&D	Fuel element research & development	222,086	8-7-53	5-30-54
OROO	AT-(30-1)-1156 SC-55843 Towanda, Penna	SUPPLY	Molybdenum powder	30,100	2-12-56	4-30-56
ALOO	AT-(29-1)-789 PP-550 Williamsport, Pa.	SUPPLY	Tester	49,649	7-29-52	4-30-53
ALOO	AT-(29-1)-789 RS-6356 Williamsport, Pa.	SUPPLY	Testers	105,183	8-14-52	5-31-53
ALOO	AT-(29-1)-789 RS-8663 Buffalo, N. Y.	SUPPLY	Testers	120,313	4-3-53	Complete

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1 A

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PART II

Operations Office	Contract No. & Work Location	Type of Work	Description of Services	Accumulated Contract Amount	Dates	
					Start	Completion
ALOO	AT-(29-1)-789 RS-12269 A&B Salem, Mass.	SUPPLY	SA-14 Tubes	\$ 232,653	9-9-53	2-1-54
ALOO	AT-(29-1)-613 B-77369 Emporium, Penna.	SUPPLY	Electronic tubes	33,000	12-16-53	5-1-54
ALOO	AT-(29-1)-789 RS-8183 Buffalo, N. Y.	SUPPLY	Testers	198,606	1-31-53	2-28-54
COO	AT-(11-1)-GEN 14 73-(14-384) Bayside, N. Y.	R&D	Bonding of zircaloy to uranium silicon alloys. Evaluation of powder metallurgy uranium silicon alloys	27,190	11-19-54	6-30-55
ALOO	AT-(29-1)-613 B-92985 Salem, Mass.	SUPPLY	Electronic components	90,000	1-7-55	8-10-55
ALOO	AT-(29-1)-789 53-2194 Woburn, Mass.	SUPPLY	Classified materials	27,013	3-17-55	9-3-55
ALOO	AT-(29-1)-789 SC-ET-296 Williamsport, Penna	SUPPLY	Tester	25,070	4-2-53	6-1-53

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~~CONFIDENTIAL~~

COMPLETED CONTRACTS WITH THE SYLVANIA ELECTRIC PRODUCTS, INC.
 (\$25,000 or more)
 (Reported Prior to Establishment of Present Contract Reporting System)

Part III

Operation Office	Contract No. & Work Location	Type of Work	Accumulated Contract Amount	Date	
				Start	Completion
ALOO	AT(29-1)-613, B-57355 --	Supply	\$ 75,000	1/8/52	12/1/52
ALOO	AT(29-1)-613, B-57914 Emporium, Pa.	Supply	31,284	4/14/52	5/1/53
ALOO	AT(29-1)-1126, Tonawanda, Pa.	Supply	529,200	2/9/51	3/9/51
NYOO	AT(30-1)-Gen-224 Flushing, New York	R&D	72,300	11/24/47	8/31/49
ALOO	AT(29-1)-613, B-57925 Boston, Mass.	Supply	28,000	4/28/52	3/1/53
ALOO	AT(29-1)-789, RS-3594 Los Angeles, Calif.	Weapons	58,000	9/29/51	3/1/52
ALOO	AT(29-1)-789, RS-3254 Los Angeles, Calif.	Weapons	84,000	7/6/51	12/1/51

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USDOE 016982

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SYLVANIA

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ELECTRIC PRODUCTS INC.



August 8, 1956

ATOMIC ENERGY DIVISION
P. O. BOX 59
BAYSIDE, NEW YORK
DCF 6367 attached

Mr. R. C. Blair
Savannah River Operations Office
U. S. Atomic Energy Commission
P. O. Box A
Aiken, S. C.

When separated from enclosures, handle this document as unclassified
(insert proper classification)

Attention: Mr. P. J. Hagelston

Subject: CONTRACT AT(30-1)-1293 - PROPOSAL FOR FY 1957

Gentlemen:

We are attaching our estimate of the cost of Contract 1293 for fiscal year 1957. This estimate is a revision of that submitted to you on June 21 and reflects the changes which you requested on July 27, namely reduction in the quantity of Mark VIII slugs. This reduction obviously causes a redistribution of our plant costs and for this reason you will find the cost for the Mark VII and other programs has changed somewhat.

For completion of the revised programs, Sylvania requests a fee of \$167,842.

This letter also acknowledges Winston Davis' letter received June 27 in which Sylvania was authorized to proceed with the work covered in our June 21st proposal. This authorization is acceptable to Sylvania and work during July was performed on that basis and will continue until directed otherwise, in accordance with final decisions on quantities and schedules.

CLASSIFICATION CANCELLED
DATE 11/28/73
For The U. S. Atomic Energy Commission
[Signature]
Division of Classification

Very truly yours,

SYLVANIA ELECTRIC PRODUCTS INC.

E. S. Norris

E. S. Norris, Controller
Atomic Energy Division

ESN:bek
enc. DCF 6367
1-2-3-4A - R. C. Blair
5A - J. J. Wise

*Copies to
Wise
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~~THIS DOCUMENT CONTAINS RESTRICTED DATA
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OR THE DISCLOSURE OF ITS CONTENTS IN ANY MANNER TO
AN UNAUTHORIZED PERSON IS PROHIBITED~~

INCANDESCENT LAMPS . RADIO TUBES . FLUORESCENT LAMPS AND FIXTURES . SIGN TUBING . ELECTRONIC DEVICES
TELEVISION PICTURE TUBES . PHOTOFLASH LAMPS . RADIO AND TELEVISION SETS

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Office Memorandum • UNITED STATES GOVERNMENT

TO : James S. Hopkins, Director, Administrative Division

DATE: August 14, 1956

FROM : Paul J. Hagelston, Chief, Reactor Materials Branch
Technical & Production Division

SUBJECT: CONTRACT AT(30-1)-1293 PROPOSAL FOR FY 1957

SYMBOL: TM:PJH:jfd

Enclosed is letter of August 8, 1956 from E. S. Norris, Sylvania, to my attention. This letter transmits the revised FY 1957 Proposal which we requested by our July 27, 1956 letter.

We have reviewed the figures in this Proposal and find them reasonable. We would appreciate your reinstatement of negotiations with Sylvania as per this Proposal and will be happy to discuss any of its features with you at your convenience.

Enclosures:

Cy ltr 8/8/56, Norris attn Hagelston
Cy 1A/11 cys DCF 6367

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USDOE 017513

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File: 5501
AEC 1293-Correspondence

UNCLASSIFIED

SYLVANIA ELECTRIC PRODUCTS INC.
Atomic Energy Division
Bayside, New York

DOF NO. 6393

This document consists of 2 pages,
No. 4 of 12 copies, Series A

September 5, 1956

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date <u>4/10/03</u>	Determination (Circle Number)
Authority: <input checked="" type="checkbox"/> ADC <input type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>Osbeck</u>	2. Classification changed to:
2nd Review Date <u>4/10/03</u>	<input checked="" type="checkbox"/> 3. Classification Canceled
Authority: <u>ADD</u>	4. Other: <u>CG-NMP-2</u> 9.00
Name: <u>W. E. Kingston</u>	

Savannah River Operations Office
U. S. Atomic Energy Commission
P. O. Box A
Aiken, South Carolina

Attention: Mr. R. C. Blair ← This copy for

Subject: CONTRACT AT(30-1)-1293 - PROPOSAL FOR ADDITIONAL WORK

Gentlemen:

We are pleased to submit the following proposal for the additional work on Mark II thorium slugs and Mark VIII enriched uranium-aluminum alloy slugs, described in Mr. Winston Davis' letter of August 17, 1956, document SR-TM-3515.

We estimate that the 5,200 Mark II slugs can be canned at a cost of \$38,960 including a fixed fee of \$2,155 and an expenditure of \$900 on equipment, as outlined in the attached Cost Estimate. This proposal is based on the assumption that we can use our Mark VIII facilities which are now available, and that there will be no major increase in Mark VIII requirements between now and November 1st. The additional Mark II pieces can then be delivered by November 1, 1956 if we receive 1,000 blanks suitable for canning on or before September 17th, another 1,000 such blanks on or before September 24th, and 1,600 more by October 1st. We already have 1,600 Mark II pieces on hand at Hicksville for stripping, and the cost of that operation is included in the above figures.

The cost for 4,800 additional Mark VIII slugs is estimated at \$23,250 including a fixed fee of \$1,315, and is also detailed on the attached sheet. These slugs would be produced during March of 1957.

Very truly yours

SYLVANIA ELECTRIC PRODUCTS INC.

W. E. Kingston
W. E. Kingston, General Manager
Atomic Energy Division

WEK:ral
cc: R. C. Blair (4)
SROO
J. Wise (1)
SROD

UNCLASSIFIED

~~SECRET~~

~~RESTRICTED DATA~~

~~THIS DOCUMENT CONTAINS RESTRICTED DATA AS DEFINED IN THE ATOMIC ENERGY ACT OF 1954 AND ITS TRANSMITTAL OR THE DISSEMINATION OF SUCH DATA IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED.~~

USDOE 017510

~~SECRET~~

Office Memorandum • UNITED STATES GOVERNMENT

TO : James S. Hopkins, **UNCLASSIFIED** Administrative Division DATE: September 11, 1956

FROM : Paul J. Hagelston, Chief, Reactor Materials Branch
 Technical & Production Division SR-TM-3580

SUBJECT: CONTRACT AT(30-1)-1293 - PROPOSAL FOR ADDITIONAL WORK

SYMBOL: TM:NJD:jfd This document consists of 1 pages

No. 1 of 8 Copies, Series A

Reference is made to W. E. Kingston's letter to R.C. Blair of September 5, 1956, DCF No. 6393, copy of which you have received. This proposal covers additional work on Mark II thorium slugs and Mark VIII enriched aluminum-alloy slugs which was requested in Davis' letter to Kingston of August 17, 1956.

We have reviewed the figures in this proposal and find them reasonable as follows.

For the Mark II pieces, Sylvania's estimate amounts to \$7.50 each. This compares with the lowest actual cost for canning similar pieces in April 1955 of \$9.09 each. Mark VIII's were estimated at exactly the same unit cost as incorporated in the Sylvania proposal of August 8, 1956 which we have accepted as Modification #14 to the contract. Accordingly, we recommend acceptance of the proposal at your earliest convenience and will be happy to discuss any of its features with you.

DEPARTMENT OF ENERGY - AVANDHAN RYAN DECLASSIFIED - 10/1/97	
1st Review Date: <u>4/8/03</u>	Determination of Circle Number
Authority: <u>ABC UADD</u>	1. Classification Unchanged
Name: <u>Osblack</u>	2. Classification changed to:
2nd Review Date: <u>4/16/03</u>	<input checked="" type="checkbox"/> 3. Classification Canceled
Authority: <u>ADD</u>	4. Other: <u>CG-NRP-2</u> 9-00
Name: <u>Vernon M. Darden</u>	

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~~RESTRICTED DATA~~

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~~SECRET~~

Draft prepared by
R. A. McFeely
P & C Branch
February 21, 1957

UNCLASSIFIED
SAVANNAH RIVER OPERATIONS OFFICE

1 of 1 copy
~~1 of 1 copy~~
Draft A

1. Name and Address

Sylvania Electric Products, Inc.
Atomic Energy Division
P. O. Box 59
Bayside, New York

Document No. SR A-103

2. Contract Number

AT(30-1)-1293

This document consists of 6 pages

No. 1 of 1 Copies, Serial DRAFT

3. Statement of Work

The Contract was transferred to the Savannah River Operations Office from New York Operations Office July 1, 1954.

General Scope

Sylvania manufactures, tests, inspects and delivers to SRP uranium and thorium metal and alloy slugs canned in aluminum jackets.

Scope of Work during 1957

Sylvania Proposal of August 8, 1956 - Incorporated in the Contract by Mod. No. 14

Work Estimate

Mark VII. - Hollow natural uranium

Gross Quantity - 488,600 (approximate number per day - 2,000; per month - 40,000)

Labor \$710,260 \$1.53 Unit Cost

Materials 701,470 1.51 " "

Overhead 950,470 2.05 " "

Total \$2,362,200 \$5.09 " "

Stripping
of 100,000
S-Cores \$173,110 \$1.73 Unit Cost

~~CONFIDENTIAL~~
~~CONFIDENTIAL~~
~~CONFIDENTIAL~~

DEPARTMENT OF ENERGY - SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date <u>4/10/03</u>	Determination (Circle Number)
Authority: <input checked="" type="checkbox"/> ADC <input type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>Shlack</u>	2. Classification changed to:
2nd Review Date <u>4/10/03</u>	* <input checked="" type="checkbox"/> 3. Classification Canceled
Authority: <u>ADD</u>	4. Other: <u>CG-NRP-2 200</u>
Name: <u>Wm. J. Rastin</u>	

UNCLASSIFIED

*Sylvania (initials)
AT (30-1) 1293*

~~SECRET~~

Mark VIII- Solid U-235-Al ~~6-11-56~~

Gross Quantity - 57,750 (approximate number per day - ³¹⁰~~9,000~~; per month - ⁶⁵⁰⁰~~65,000~~)

Labor	\$78,020	\$1.37	Unit Cost	
Materials	81,600	1.43	"	"
Overhead	100,815	1.77	"	"
	<hr/>	<hr/>		
Total	\$260,435	\$4.57	"	"

Total Estimated Cost \$3,000,230 (including equipment)
 Total Fixed Fee 167,842
 Rate of Fee to Applicable Base 6%

Sylvania Proposal for additional work during FY 1957, dated September 5, 1956 -
 Incorporated in the Contract by Mod. No. 15

	<u>Mark II</u> Solid enriched U-235-Al & Thorium	<u>Mark VIII</u> Solid U-235-Al 6-11-56	<u>Total</u>
Gross Quantity	5,200	4,800	10,000
Direct Labor	\$12,020	\$6,580	\$18,600
Overhead	16,225*	8,495*	24,720
Direct Charges	<u>7,660</u>	<u>6,860</u>	<u>14,520</u>
Total Operating Cost	\$35,905	\$21,935	\$57,840
Fee 6%	<u>2,155</u>	<u>1,315</u>	<u>3,470</u>
Total Cost Plus Fee	\$38,060	\$23,250	\$61,310
Equipment (Polyvinyl Chloride Blower)	<u>900</u>	<u>- -</u>	<u>900</u>
Total	<u>\$38,960</u>	<u>\$23,250</u>	<u>\$62,210</u>

*Overhead computed at 135%, the rate estimated for the period of September and October, 1956.

**Overhead computed at 129%, the rate estimated for March, 1957.

~~SECRET~~

Anticipated Scope of Work For FY 1958

It is expected that Sylvania will begin canning all Mark VII slugs used at SRP in May 1957. The production quantity will level off to about 20% of the present production rate or about ten thousand slugs per month. This rate is expected to continue through the Calendar Year 1957.

4. Term of Contract

Contract was entered into December 10, 1951, and expires June 30, 1957.

5. Type of Contract

Cost-plus-fixed-fee

The average rate of fixed fee for performance of work under the contract has been 6% of the estimated cost.

6. Amount of Contract

<u>Period</u>	<u>Cost of Work (Exclusive of Fixed Fee)</u>	<u>Fixed Fee</u>	<u>Total</u>
12/10/51 - 6/30/54 (NYOO)	\$3,951,805	\$172,150	\$4,123,955
7/1/54 - 6/30/57. (SROO)	<u>5,534,887</u>	<u>308,734</u>	<u>5,843,621</u>
Total	\$9,486,692	\$480,884	9,967,576

Summary of Contract and Modifications Thereto

	<u>Operating Costs & Plant & Equipment</u>	<u>Fixed Fee</u>	<u>Total</u>
✓ Original	\$ 3,133,897	\$ 120,000	\$3,253,897
Modification 1	736,103	No Change	736,103
Modification 2	No Change	No Change	- - - -
Modification 3	No Change	No Change	- - - -
Modification 4	No Change	No Change	- - - -
Modification 5	229,850	52,150	282,000

Modification 6	No Change	No Change	-----
Modification 7	99,500	No Change	99,500
Modification 8	562,463	37,190	599,653
Modification 9	1,450,795	84,028	1,534,823
Modification 10	(765,114)	(57,146)	(822,260)
Modification 11	410,142	17,000	427,142
Modification 12	No Change	No Change	-----
Modification 13	1,007,901	56,350	1,064,251
Modification 14	3,000,230	167,842	3,167,072
Modification 15	<u>58,740</u>	<u>3,470</u>	<u>62,210</u>
Total	\$9,486,692	\$480,984	\$9,967,576

7. Points of Interest

A portion of the Hicksville Plant (known as Site "B") comprising approximately 5,000 sq. ft. has been released to Sylvania for use in performing outside work. This work will in no way be connected with work under Contract No. AT(30-1)-1293. As a result of releasing this space, reduction/in the month rental rate was obtained. ~~of about \$3,000~~

The Contract was amended by Modification No. 12 to permit Sylvania to perform work for other Commission offices or their cost-type contractors by means of an Appendix "C" Agreement to Contract No. AT(30-1)-1293. No work has been performed under an Appendix "C" Agreement to date.

General

8. Cost Information

A. Payments made to date:

Under NYOO Scope

FY 1952	\$ 607,884
FY 1953	2,395,827
FY 1954	<u>1,106,229</u>
Total	\$4,109,940

Under SROO Scope

FY 1955	\$ 766,122
FY 1956	1,505,929
FY 1957 to	<u>2,007,493</u>
2/18/57	
Total	\$4,279,544

B. Investment in Plant & Equipment		\$1,875,229
Less Reserve for Depreciation		<u>785,603</u>
Net Plant & Equipment as Calendar Year 1/31/57		\$1,089,626

C. <u>Breakdown of Costs for FY 1956 and FY 1957</u>		
	<u>FY 1956</u>	<u>FY 1957 thru 12/31/57</u>
Plant & Equipment	\$ 190,579	\$ 24,505
Operations	<u>1,863,917</u>	<u>1,590,389</u>
Total	\$2,054,496	\$1,622,894

D. Cost of Rental or Occupancy

FY 1955	\$ 57,800
FY 1956	59,495
FY 1957 thru 1/31/57	<u>43,036</u>
Total cost by SROO thru 1/31/57	\$160,331

E. Division Prorate

Contract AT(30-1)-1293 share of indirect cost for procurement, administrative and accounting services incurred by Sylvania AED.

FY 1956	\$172,208
FY 1957 thru 1/31/57	119,118

F. Overhead

<u>Composed of:</u>	<u>FY 1956</u>	<u>FY 1957 to 1/31/57</u>
Indirect Labor	\$133,532	\$ 96,673
Expense Labor	213,430	185,773
Payroll Costs	137,557	121,570
Occupancy	59,495	43,036
Utilities	45,157	29,910
General Plant	50,254	24,203
Indirect Materials	38,064	40,928
Division Prorate	172,208	119,118
G & A Expense	33,230	26,605
O/H Transfer to Site B	- - -	<u>(22,317)</u>
Total Overhead	\$882,927	\$665,499

~~Secret~~ 1

G. Sylvania Unit Costs

	<u>Type</u>	<u>Operation</u>	<u>Total Cost</u>	<u>Unit Cost</u>	<u>No. Units</u>	<u>Measure</u>
			*			
FY 1956	Mark VII	Drilling	171,244	2.08	82,395	Pounds
	Mark VII	Canning	1,116,195	2.54	439,492	Pounds
	Mark VIII	All Costs	156,828	.26	604,934	Grams U-235
	Mark II	All Costs	148,662	8.10	18,348	Pounds
FY 1957	Mark II	Reclaiming	2,527	.91	2,774	Pounds
	Mark II	Canning	20,706	2.65	7,806	Pounds
	Mark VII	Reclaiming	83,984	.40	212,551	Pounds
	Mark VII	Canning	1,361,752	1.23 ✓	1,104,382	Pounds
	Mark VIII	All Costs	202,774	.18	1,139,444	Grams U-235

* Total Costs and Unit Costs are exclusive of depreciation.

This document consists of 1 pages

~~SECRET~~ 5/1/57

February 27, 1957
SR-TM-3987

No. 1 of 3 Series A

UNCLASSIFIED

FY 57: SCOPE AND STATUS OF WORK AND DOLLARS UNDER MODIFICATION 14 AND 15
Cy # 2A *deletion 7/23/57* CONTRACT 1293, SYLVANIA

100-1000-1000

add to the above re. tanks

Type of Work	Contract Quantities	Actual thru 1/31/57	Current Estimated FY 57	Contract \$	Actual \$ thru 1/31/57	Estimated \$ FY 57
Mark VII Canning	488,600	287,390 <i>448,000 1/2, 1/2</i>	478,000	2,362,000	1,362,000	2,260,000
S-Cores	100,000	57,563	100,000	173,110	84,000	173,110
Mark VIII Canning	62,550	51,691 <i>#2-77</i>	62,550	283,685	203,000	283,685
Mark II Canning	(5,200) <i>5,440</i>	3,983	5,200	38,960	23,000	38,960

399,437

645,750

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW

1st Review Date 4/3/03
 Authority: AEC ADD
 Name: Shellock
 2nd Review Date 4/8/03
 Authority: ADD
 Name: James P. Dandrea

Determination (Article Number)
 1. Classification: unchanged
 2. Classification changed to:
 3. Classification Canceled
 4. Other: CG-NMP-2

FY 58: SCOPE (ESTIMATED) MARK VII CANNING ONLY

July	12,500
August	10,000
September	10,000
October	10,000
November	10,000
December	10,000

U

*total cost Hicksville 60,000/mo.
 5 da/mo
 15% more for
 6 days
 based on 3 shift operation
 Hicksville about 30-35,000/mo.*

*3A declassified
5-15-61 Nke*

*110-120,000/mo with
this add. - space is
ann-rlp.*

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~~RESTRICTED DATA~~

~~Document containing Restricted Data as defined in the Atomic Energy Act of 1954 shall not be transmitted or otherwise disseminated in any form to an unauthorized person is prohibited.~~

March 5, 1957 The above information is new and to date - to be revised - Per Voice - DSM

~~SECRET~~

USDOE 017403

SYLVANIA ELECTRIC PRODUCTS INC.

ATOMIC ENERGY DIVISION

P. O. BOX 59

BAYSIDE, NEW YORK

REDACTED

March 26, 1957

Mr. R. C. Blair
Savannah River Operations Office
Atomic Energy Commission
P. O. Box A,
Aiken, S. C.

C
O
P
Y

Dear Bob:

I am enclosing ten executed copies of the Supplemental Agreement to Contracts AT(30-1)-1293 and AT(30-1)GEN-366 providing for the assignment of these contracts from Sylvania Electric Products Inc. to Sylvania-Corning Nuclear Corporation.

As soon as you have signed them it would be appreciated if you would forward them to New York Operations Office immediately for execution as we would hope to have them by April 1. We will require four completely executed copies for our use.

Best personal regards.

Very truly yours,

SYLVANIA ELECTRIC PRODUCTS INC.

Garth W. Edwards, Controller
Atomic Energy Division

GWE:bk
enc.

REDACTED

For De Assignment
Modification No. 26
Supplemental Agreement to
Contract No. AT-30-1-GEN-366

Modification No. 16
Supplemental Agreement to
Contract No. AT(30-1)-1293

THIS SUPPLEMENTAL AGREEMENT, entered into as of April 1, 1957 (hereinafter referred to as "the effective date"), by and between Sylvania Electric Products Inc., a corporation duly organized and existing under the laws of the State of Massachusetts, with its principal offices in the City of New York, New York (hereinafter referred to as the "Transferor"); ~~The Sylvania-Corning Nuclear Corporation~~, a corporation organized and existing under the laws of the State of Delaware, with its principal offices in the City of New York, New York (hereinafter referred to as the "Transferee"); and the United States of America (hereinafter referred to as the "Government"), acting through the United States Atomic Energy Commission;

WITNESSETH THAT:

WHEREAS, the Government, represented by various contracting officers of the United States Atomic Energy Commission, has entered into certain contracts with the Transferor, namely, Contract AT-30-1-GEN-366 and Contract AT(30-1)-1293, and the term "Contracts" as hereinafter used means the above contracts, including without limitation all amendments and supplements and change orders thereto, heretofore made by the Government, represented by various contracting officers of the United States Atomic Energy Commission, or by Sponsors, as defined in said contracts, and the Transferor (whether or not performance and payment have been completed and releases executed, if the Government, Sponsor, or Transferor has any remaining rights, duties or obligations thereto), and including amendments, supplements and change orders thereto hereafter made between the Government and the Transferee, or the Sponsor and the Transferee;

WHEREAS, as of the effective date, the Transferor has assigned, conveyed and transferred to the Transferee all of the property described in Exhibit "A" attached hereto as a part hereof;

WHEREAS, the Transferee, by virtue of said assignment, conveyance and transfer, has acquired all the assets and liabilities of the Transferor relating to the performance of the Contracts;

WHEREAS, by virtue of said assignment, conveyance and transfer, the Transferee has assumed all the duties, obligations and liabilities of the Transferor under the Contracts;

WHEREAS, the Transferee is in a position fully to perform the Contracts, and such duties and obligations as may exist under the Contracts;

WHEREAS, it is consistent with the Government's interest to recognize the Transferee as the successor party to the Contracts; and

WHEREAS, there has been filed with the Government, through the Savannah River Operations Office of the Atomic Energy Commission, evidence of said assignment, conveyance and transfer, as is more fully described in Exhibit "B", which is attached hereto as a part hereof;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and undertakings contained herein, the parties hereto agree as follows:

1. The Transferor hereby confirms said assignment, conveyance and transfer to the Transferee as of the effective date, and does hereby for itself alone, release and discharge the Government from, and does hereby waive any claims, demands, and rights against the Government and/or Sponsor(s), as defined in the Contracts, which it has as of the effective date or may thereafter have under, or in connection with, the Contracts; provided, however, that nothing in this paragraph 1 shall be deemed to preclude the Transferee from exercising, making and/or enforcing, on and after the effective date, any of such claims, demands or rights which the Transferor would have been entitled to exercise, make and/or enforce but for the provisions of this paragraph 1.

2. The Transferee hereby assumes, agrees to be bound by, and undertakes to perform each and every one of the terms, covenants, and conditions contained in the Contracts. The Transferee further assumes all obligations and liabilities of, and all claims and demands against, the Transferor under the Contracts, in all respects as if the Transferee were the original party to the Contracts.

5-C
S-C
S-C
3. The Transferee hereby ratifies and confirms all actions heretofore taken by the Transferor with respect to the Contracts with the same force and effect as if the action had been taken by the Transferee.

4. The Government hereby recognizes the Transferee as the Transferor's successor in interest in and to the Contracts. The Transferee hereby becomes entitled to all right, title and interest of the Transferor in and to the Contracts

in all respects, including without limitation all claims, demands and rights thereunder or in connection therewith, as if the Transferee were the original party to the Contracts. The term "Contractor" as used in the Contracts shall be deemed to refer to the Transferee rather than the Transferor.

accrued or owing as of the date prior to the effective date
5. Nothing in this agreement shall be construed as a waiver of any rights of the Government or the Sponsor(s), in case of a sponsor agreement, against the Transferor in connection with the Contracts *from the eff date of the transfer* *effective* *and prior to the eff date.*

6. Notwithstanding the foregoing provisions, all payments and reimbursements heretofore made by the Government or the Sponsor(s), in case of a sponsor agreement, to the Transferor and all other action heretofore taken by the Government, pursuant to its obligations under any of the Contracts, shall be deemed to have discharged pro tanto the Government's or, as the case may be, the Sponsor's obligations under the Contracts. All payments and reimbursements made by the Government or the Sponsor, in the case of a sponsor agreement, on or after the effective date of this agreement in the name of or to the Transferor shall have the same force and effect as if made to said Transferee and shall constitute a complete discharge of the Government's or, in the case of a sponsor agreement, the Sponsor's obligation under the Contracts to the extent of the amounts so paid and reimbursed.

7. The Transferor and Transferee hereby agree that no claim for payment by, or reimbursement from, the Government shall be made by either or both of them with respect to any costs, increased taxes or other expenses arising directly out of or attributable directly to (i) said assignment, conveyance, and transfer, or (ii) this agreement, other than those which the Government, or the Sponsor, in the case of a sponsor agreement, would have been obligated to pay or reimburse under the terms of the Contracts in effect prior to the effective date of this agreement. *we clear it up*

8. The Transferor hereby unconditionally and irrevocably guarantees payment of all liabilities and the performance of all obligations which the Transferee assumes under this agreement, or may hereafter undertake under the Contracts; provided, however, that this guarantee shall not apply with respect to ~~any contract term or period of performance~~ subsequent to March 31, 1959; provided further that the Transferor hereby irrevocably waives notice of any and all intervening amendments, supplements and/or change orders to the Contracts or either of them. *Undertaken after the eff date*

any obligation to be performed subsequent to 3/31/59

9. Except as herein modified, the Contracts shall remain in full force and effect.

IN WITNESS WHEREOF, each of the parties hereto have executed this Supplemental Agreement as of the date and year first above written.

UNITED STATES OF AMERICA
By: UNITED STATES ATOMIC ENERGY COMMISSION

Title: _____
(Representing Contract No. AT-30-1-GEN-366)

Title: _____
(Representing Contract No. AT(30-1)-1293)

WITNESSES:

SYLVANIA ELECTRIC PRODUCTS INC.

By: _____

Title: _____

SYLVANIA-CORNING NUCLEAR CORPORATION

By: _____

Title: _____

CERTIFICATE

I, _____, certify that I am Secretary of Sylvania Electric Products Inc., named above; that _____, who signed this agreement on behalf of said corporation, was then _____ of said corporation; and that this agreement was duly signed for

and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

Witness my hand and seal of said corporation this _____ day of _____, 1957.

(Corporate Seal)

CERTIFICATE

I, _____, certify that I am Secretary of Sylvania-Corning Nuclear Corporation, named above; that _____, who signed this agreement on behalf of said corporation, was then _____ of said corporation; and that this agreement was duly signed for and on behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

Witness my hand and seal of said corporation this _____ day of _____, 1957.

(Corporate Seal)

A

Enc. has additional copies

RECEIVED

MAY 18 10 28 AM '57

SYLVANIA-CORNING NUCLEAR CORPORATION

JOINT COMMITTEE ON
ATOMIC ENERGY

Bayside, Long Island, New York

Office of the Secretary
1740 Broadway
New York 19, New York

Please initial and return to JCAE	
Chairman	
Ramey	<i>9/77</i>
Brown	
Conway	
Hollister	
Norris	
Toll	
Higgins	
Doellinger	

May 15, 1957

James T. Ramey, Esq., Executive Director
Joint Committee on Atomic Energy
Washington, D.C.

Dear Jim:

In response to your request I am setting forth below contractual examples in support of Dr. Davenport's testimony on present AEC indemnity policy. As I do not yet have a copy of the final transcript of Dr. Davenport's testimony I will be unable to refer to it by page and line. However, for convenience, I will refer to the written statement which Dr. Davenport submitted at the time of his testimony and which generally follows his oral statement.

At the bottom of page 2 and top of page 3 of that statement Dr. Davenport stated:

"As an AEC prime or subcontractor we are faced initially with a dilemma. If the contract calls for use of special nuclear material, we may attempt to obtain this material under our license or directly under the contract. In the first case we are again confronted with Section 53 (e)(8) of the Act. In the second case we are confronted with serious accountability problems. In at least one instance in the past year these accountability procedures required us to halt all other work at our facility until work was completed on the special nuclear material involved under the contract in question."

Example: In connection with Purchase Order #7693 from Associated Universities Inc. for furnishing sample fuel elements for a reactor at Brookhaven, accountability procedures were established in connection with special nuclear material obtained under the contract which made it

NARA I
RG 128
Gen'l Subj File
Box 51
F. AEC Legislation
Insurance

James T. Ramey, Esq.
Page 2

May 15, 1957

virtually impossible for us to perform any other work at our private facilities at Hicksville, L.I. while performing our work pursuant to this purchase order.

A similar question arose with respect to our bid, accepted on 2/8/57, to furnish a full production order for the same research reactor pursuant to subcontract S-332 with Associated Universities Inc. Informed that we could not receive indemnity from the Commission if special nuclear material for use on this job were obtained under license, we requested that the material be supplied under the contract with suitable indemnification. It now appears after extended negotiations that we will be able to agree on satisfactory accountability procedures which would enable us to obtain and use the special nuclear material under the contract without halting other work which we may have for our private facility at Hicksville. However, we are still awaiting further word from the AEC on adequate indemnification.

Dr. Davenport indicated in paragraph numbered 1 on page 3 of the written statement that our understanding of the Commission's approach to indemnification is as follows:

- "1. It will authorize but not direct the regional offices to grant indemnities to reactor operators, reactor builders and assemblers and fuel element suppliers in the following situations:
 - (a) to direct prime contractors either at the instance of the cognizant regional office or at the insistence of the contractor;"

Example: We have obtained limited indemnification directly from the Savannah River Operations Office of the Atomic Energy Commission under our prime contract AT (30-1) - 1293 with the AEC which calls for furnishing fuel elements directly to the AEC.

- "(b) if insisted upon, to the subcontractors of cost reimbursement type prime contractors on the theory that the low bid of the subcontractor constitutes adequate legal consideration to the Government for granting indemnity."

Example: We have obtained fairly broad indemnification under P.O. #7693 from Associated Universities Inc., referred to above

May 15, 1957

and issued under A.U.I.'s cost reimbursement prime contract with the Atomic Energy Commission. Initially we were tendered an extremely limited indemnification from A.U.I. covering only those hazards arising from source, special nuclear or byproduct materials, used, possessed or handled by us under the purchase order, and limited to "availability of Commission funds for this purpose, and the obligation by the Commission of such funds under" the prime contract. At our insistence the Commission ultimately granted us a direct indemnity covering the foregoing hazards and, in addition, the special hazards of source, special nuclear and byproduct materials "which the Government, Brookhaven or others may use, possess or otherwise handle in connection with the products furnished" by us under the order; the indemnity is subject, among other things, to "available funds" and gross negligence, wilfull misconduct or bad faith of a director, officer or of personnel, generally speaking, having overall supervision of all or a substantial part of the work. As noted above we are presently in the process of attempting to negotiate similar indemnification in connection with a full production order for fuel elements for Associated Universities Inc. under subcontract S-332.

On page 4 of Dr. Davenport's written statement, in the first paragraph on the top of the page, he stated:

"A subcontractor for the reactor or the fuel elements may also be able to obtain, in more or less limited form, indemnity which the prime contractor has succeeded in obtaining from the Commission and which the prime contractor is authorized to pass on. However, the Commission apparently will not grant anything more to any subcontractor of a fixed price prime contractor. In justification of the policy the Commission apparently reasons that the prime contractor is already obligated at the fixed price, and there is therefore no legal consideration for granting anything further to the subcontractor unless the prime contractor can demonstrate that it is otherwise impossible to get the job done."

May 15, 1957

Example: We have been confronted with precisely this situation in a bid on a proposed subcontract with Daystrom Instruments (P.O. #OE3019-P-8726), originally accepted 8/16/56, under Associated Universities Inc. prime contract with the Commission. We requested a more complete and direct indemnification from the Government than the extremely limited one which Daystrom was initially authorized to tender. Among other things, the indemnity initially tendered was "subject to the Commission's making funds available to" Daystrom for the purpose of the indemnity "under the Prime Contract". The indemnity would apply only to the hazards of "special nuclear or radioactive materials or products or by-products thereof, processed, used or handled" by any approved subcontractor in connection with the subcontract with Sylvania-Corning Nuclear Corporation. We have been informed on behalf of the Government that since Daystrom has a fixed price contract there would be no legal consideration for granting to Sylvania-Corning Nuclear Corporation anything more than Daystrom itself is authorized to pass on under its fixed price contract with Associated Universities Inc., even though a prime contractor in a similar situation and alerted by experience to all of the details of the Commission's policy would presumably be able to negotiate into its prime contract broader and direct AEC indemnity coverage for both itself and its subcontractors. Despite the fact that we were low bidder on and admittedly competent to perform the Daystrom job, further negotiations with the Commission have now placed us in the position of either having to turn the job down completely or undertake it with only limited indemnity.

In the second paragraph on page 4 of the written statement Dr. Davenport stated:

"The indemnities granted pursuant to these principles may be more or less complete. Frequently they will not cover liability which may arise from non-nuclear materials, such as moderators, supplied under the contract although such non-nuclear materials may be used in a reactor and may therefore subject the supplier to full liability for any excursion."

Example: As indicated in the examples already quoted above

James T. Ramey, Esq.
Page 5

May 15, 1957

indemnities which have been offered to us have varied from fairly complete direct indemnities from the Commission covering not only liability which might arise from the nuclear materials which we used, possessed or handled under the contract but also from non-nuclear materials, such as moderators or fuel element cladding, which we have supplied and which might be used in conjunction with source, special nuclear or by-product materials contained or used in someone else's products or facilities. Similarly, while some of the indemnities offered have been subject to "available funds" others have been limited to funds available for the specific purpose and obligated by the Commission under the applicable prime contract. While some of the proposed indemnities have excluded gross negligence and wilful misconduct and bad faith of supervisory officers and personnel others have excluded simple negligence as well. Other variations of lesser importance exist in the several indemnities.

I believe that the examples given above illustrate the four points made by Dr. Davenport on page 5 of his statement. By way of further illustration of point 2, negotiations on Associated Universities Inc. P.O. #7693 referred to above commenced with our proposal on 10/20/55, verbal acceptance by A.U.I. on 11/23/55 and continued through 9/12/56 when agreement was finally reached on appropriate indemnification. A substantial part of the delay was due to negotiations for adequate indemnification. Associated Universities Inc. was sufficiently disturbed by the delay caused by these negotiations so that the award to us of the full production job under subcontract S-332 referred to above was jeopardized. A similar situation is presently developing in connection with Daystrom Instrument P.O. #OE3019-P-8726 referred to above in connection with which our bid was accepted by telegram on 8/16/56 and negotiations are still proceeding with a view, among other things, toward obtaining adequate indemnification. As indicated above, this Daystrom purchase order also illustrates point 4 on page 5 in that Sylvania-Corning Nuclear Corporation was both the low bidder on the job and is admittedly competent to perform the job but has not yet been able to accept the job due to the fact that adequate indemnification has not yet been made available.

I sincerely hope that the foregoing examples will be of some help to the Committee in evaluating the testimony

James T. Ramey, Esq.
Page 6

May 15, 1957

presented by Dr. Davenport and applying it to the proposed indemnity legislation. If we can be of any further help please do not hesitate to let us know.

Cordially yours,

Howard M. Cohen

Howard M. Cohen

HMC:ecl

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Office Memorandum • UNITED STATES GOVERNMENT

TO : Those Listed Below

DATE: APR 10 1958

FROM : E. J. Block, Director
Division of Production

SUBJECT: EXTENSION OF STATUTORY INDEMNIFICATION TO SYLVANIA-CORNING
NUCLEAR CORPORATION

SYMBOL: PC:RJS

The attached memorandum from R. G. Blair, Manager, HECO, which recommends against extending statutory indemnity to the work being performed by Sylvania-Corning at Hicksville, Long Island, is furnished for your concurrence or comments.

Attachment:
Memo dated 4/4/58 from
R. G. Blair thru Block

Addressed to:
Harold L. Price, Director of Licensing and Regulation
Loren K. Olson, General Counsel
Don S. Burrows, Controller

02/11/04 14:43 FAX 212 4464900
02/11/04 15:31 FAX

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Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. J. Hollingsworth, Assistant General Counsel
Deputy for Administration, Washington
ATTN: Mr. J. Hitchcock, Dir. of Procurement
FROM : Mr. J. Blain, Manager
Savannah River Operations Office

SUBJECT: SYLVANIA CORNING NUCLEAR CORPORATION, EXPANSION OF
STATION IN SIGNIFICANT TO
Savannah River Operations Office

The following information is submitted pursuant to the request made by you at the indemnity meeting in Washington on March 21 in order that a determination may be made relative to the inclusion of the statutory indemnity article in Contract AI(30-1)-1295 between Sylvania Corning Nuclear Corporation (Syl-Cor) and Savannah River Operations Office.

The work performed by Syl-Cor under Contract AI(30-1)-1295 is performed at its Hicksville, Long Island, plant and involves the casting of natural uranium into fuel elements for SMO and also, to a small degree, the development of new element types. No enriched uranium is handled by Syl-Cor under this contract, and the maximal expected inventory of normal uranium at any one time at that plant would be one hundred tons. We would not expect there to be any possibility of an explosion or connection with the work under the contract, but it is possible that a fire might occur. Since there is no sprinkler system provided in that portion of Syl-Cor's facilities devoted to this contract work, it is also possible that any fire could be of some magnitude.

Hicksville, Long Island, has a population of 14,000 and is located approximately 25 air miles from the Pennsylvania Railroad Station, New York City. The population of greater Hicksville is between 100,000 and 200,000. The Syl-Cor plant is located approximately 1 1/2 to 2 miles from downtown Hicksville in an industrialized zone. Within a 1-mile radius there are several small industrial firms and a large aircraft company is located a mile or two away.

The Syl-Cor plant at Hicksville comprises two major production buildings containing over 30,000 square feet of

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space, plus auxiliary buildings housing their purchasing and accounting departments, with about 140 people being engaged in work under Contract AI(30-1)-1298 at that site. At the same location, and separated only by a thin masonry wall, Syl-Cor conducts commercial activities in the atomic energy field. In its commercial activities at Hicksville, Syl-Cor regularly works with enriched uranium, and its production superintendent is responsible for both its commercial and government activities at that site. The commercial work being performed by Syl-Cor at Hicksville is performed, so we understand, under a license or licenses obtained from the Commission. However, we understand that between 85% and 90% of the work being performed at Hicksville by Syl-Cor is performed under Contract AI(30-1)-1298.

In addition, Syl-Cor has recently constructed at Hicksville another facility, which is located approximately 60 yards distant from the plant in which the SR00 work is being performed. This new facility will also be used by Syl-Cor in its private commercial atomic energy activities.

Under our contract with Syl-Cor, a monthly occupancy charge is paid to Syl-Cor for the use of its facilities in lieu of an allowance for rent, insurance, taxes, etc. The occupancy charge includes coverage for both fire insurance and for public liability insurance against damage to persons and properties of employees of Syl-Cor, except workmen's compensation, or of third persons, as well as automobile insurance. Premiums for workmen's compensation insurance are reimbursed by SR00 through direct payments. We understand that the public liability insurance carried by Syl-Cor, and for which premiums are included in our occupancy charge, is in the amount of \$5,000,000.00. In addition, our contract includes a "Model T" indemnity clause against loss or damages resulting from nuclear incidents which are not covered by insurance. We also understand, however, that Syl-Cor recently obtained a "binder" for insurance against nuclear incidents with respect to its atomic energy activities at Hicksville and at its other locations in the amount of \$10,000,000.00, presumably this was obtained as a result of its private atomic energy activities, since approval was not requested of SR00, and, as of this date, no reimbursement has been made by SR00 for this type of insurance.

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APR 4 1958

R. E. Hollingsworth

The term of our present contract expires on June 30, 1958, and present production schedules indicate the contract will be extended beyond that date.

In view of the foregoing and while we recognize that there is some possibility of a nuclear incident at the Hickville plant which could cause damage in excess of \$1,000,000.00, we recommend that statutory indemnity not be extended to the work being performed by Syl-Co at Hickville, Long Island, under Contract AT(30-1)-1299.



C

E. J. Bloch, Director
Division of Production

APR 25 1958

H. L. Price, Director
Division of Licensing and Regulation

APPROVAL

COMMENTS ON EXTENSION OF STATUTORY INDEMNIFICATION TO SYLVANIA-CORNING

This replies to your memorandum of April 10, requesting our comments on SRD's recommendation that statutory indemnity not be extended to Sylvania-Corning, in connection with contract At(30-1)-1293.

While we have not completed our study of the problem, our present policy is not to require materials licensees to furnish financial protection and, therefore, we have not extended statutory indemnity to them. While further study of the problem may ultimately lead to a different policy, SRD's recommendation is consistent with our present practice and we have no objection to its approval.

CC: Iyall Johnson, I&R

DISTRIBUTION

- 1 Addressee
- cc: as listed
- 1 I&R sf ←
- 1 I&R rf
- 1 ERPRICE rf

OFFICE ▶		<i>[Signature]</i>	<i>[Signature]</i>		
SURNAME ▶		ERPRICE:bb	H. L. PRICE		
DATE ▶		4/24/58	4/25/58		

INDEMNITY

1. Notwithstanding any other provisions of this Agreement, it is agreed that the Contractor shall not be liable for, and the Government shall, subject to the availability of funds, indemnify and hold the Contractor harmless against, any and all loss or damage (including but not limited to personal injury, disease or death of persons, or damage to property) and any and all expense in connection therewith or in connection with alleged loss or damage (including but not limited to the expense of litigation), arising out of, based on, or caused by radioactive, toxic, explosive or other hazardous properties of source, special nuclear, or radioactive materials, or products or by-products therefrom, which the Contractor may use, possess or otherwise handle under or in connection with this Agreement, whether or not any director, officer, employee, or agent of the company is responsible therefor; provided, however, that this obligation of the Government shall apply only in those instances where loss or damage, and expense in connection therewith or in connection with alleged loss or damage, is not due to or caused by gross negligence or bad faith on the part of any officer of the Contractor, or on the part of any representative or employee of the Contractor exercising the powers, responsibilities and duties normally exercised by the plant manager having direction or supervision of the work undertaken by the Contractor hereunder, nor due to nor caused by wilful or grossly negligent failure to follow procedures and standards approved and transmitted to the Contractor by the Commission for the use, possession or other handling of source, special nuclear or radioactive materials, or products or by-products therefrom, on the part of any of the aforescribed Contractor personnel. The obligations of the Government under this Article shall apply only to the extent that the Contractor is not covered and made whole by insurance; provided, however, that said obligations shall not apply to any loss or damage, or any expense in connection therewith or in connection with alleged loss or damage, if, and to the extent that, the Contractor is covered by insurance with regard to such loss or damage, or such expense in connection therewith or in connection with alleged loss or damage, but is not so made whole by said insurance because of some intentional misrepresentation by the Contractor in the obtainment of said insurance or by some breach by the Contractor of the terms and/or conditions of said insurance or of some other act or failure to act on the part of the Contractor as respects said insurance. The Contractor represents that it is presently maintaining, and the extent of the liability of the Government under this Article is limited in any event to the excess over, the following insurance coverage, as such coverage has been reduced by loss or damage, and expense in connection therewith or in connection with alleged loss or damage, prior to the date of loss or damage, or expense in connection therewith or in connection with alleged loss or damage, indemnified against hereunder, where such reduction has not been reinstated in accordance with the Contractor's normal insurance practice, all of the foregoing being on the basis of the aforesaid coverage being embraced in and covered by the allowance provided for in subparagraph j. of paragraph 3 of Article IV hereof, to wit:

Discussion w/ Cohen 6-26-58: Indemnity, either by the as above or under Price Anderson Act, will not be available to us given type of work involved. Not that potentially dangerous. Tylcor has not had indemnity at Bayside work. If we go into reactor work we will have coverage of reactor mfg's available to us, but this again is site coverage.

a) Fire, smoke, storm, and hail insurance, and similar property insurance policies on the Contractor's Hicksville Plant and on all property of the Contractor therein, in dollar amounts sufficient to provide at least actual cash value coverage at all times.

b) Public liability insurance against damages to persons and properties of employees of the Contractor (except for workmen's compensation insurance) or of third persons, at the Contractor's Hicksville Plant or resulting from the Contractor's operations therein, in these dollar amounts: Five Million Dollars (\$5,000,000) per person and per accident respecting personal injuries and Five Million Dollars (\$5,000,000) respecting property damage.

c) Insurance against damages to motor vehicles, not Government-owned, used by the Contractor in connection with the work provided for in Article I of this Agreement and against damages to persons and property resulting from operation by the Contractor and its employees of motor vehicles in connection with said work, in these dollar amounts: One Million Dollars (\$1,000,000) per person and per accident respecting personal injuries and One Million Dollars (\$1,000,000) respecting property damage.

d) The parties agree that a minimum of the insurance covered by subparagraph a, b and c of this Article was in force prior to this Agreement and that the cost thereof is included in the rental charge for the use of the Contractor's Hicksville Plant as provided for in subparagraph j. of paragraph 3 of Article IV. The parties further agree that the Contractor shall be reimbursed by the Commission for any additional cost of such insurance over and above the cost of such insurance at the date of this Agreement, including but not limited to the cost of obtaining additional insurance to reinstate, in accordance with the Contractor's normal insurance practice, the minimum coverages provided for in subparagraph a, b and c above if any of such minimum coverages has been reduced by loss or damage, or expense in connection therewith or in connection with alleged loss or damage, arising from, based on, or caused by work under or in connection with this Agreement. However, such additional cost as is due to increase in premiums for reasons other than reinstatement of the afordescribed minimum coverages shall be reimbursed only to the extent that such additional cost is occasioned solely as a result of the use, possession, or other handling of source, special nuclear, or radioactive materials, or products or by-products therefrom, that may be involved in the performance of the work under this Agreement.

*talk to agent /
Cullen*

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UNCLASSIFIED

SR-TM-3515

DEPARTMENT OF ENERGY SAVANNAH RIVER DECLASSIFICATION OFFICE AUG 17 1958	
1st Review Date <u>4/8/03</u>	Determinator (Circle Number)
Authority: <u>ADIC LTADD</u>	1. Classification Unchanged
Name: <u>Aslack</u>	2. Classification changed to:
2nd Review Date <u>4/8/03</u>	3. Classification Changed
Authority: <u>ADIC</u>	4. Other: <u>CG-NMP-2</u> 9-00
Name: <u>Walter E. Kingston</u>	

17 1958

This document consists of 1 pages

No. 3 of 12 of Series A

Dr. Walter E. Kingston, General Manager
 Atomic Energy Division
 Sylvania Electric Products, Inc.
 P. O. Box 59
 Bayside, L. I., New York

Dear Dr. Kingston:

As has been informally discussed between our respective staffs, SRP will require the canning of a relatively small quantity of thorium slugs. In order to meet SRP schedules, it is requested that a gross number of 5,200 bare thorium slugs be canned at Sylvania and those acceptable shipped to the Savannah River Plant by November 1, 1956.

As a corollary to this thorium loading, 4,800 additional Mark VIII enriched uranium-aluminum alloy slugs will be required over and above the quantities in your proposal of August 8, 1956. It will not be necessary to provide these additional Mark VIII slugs by the November 1 date; we will use existing Mark VIII slugs and your subsequent canning of the additional slugs will be used for replacement.

We will appreciate receipt of a supplementary proposal for these quantities at your earliest possible convenience.

If you are agreeable to performing this additional work, you are hereby authorized to procure the materials, fabricate dies and can 5,200 thorium slugs in accordance with the terms and conditions of Contract AT(30-1)-1293 and my letter to you of June 29, 1956, it being understood that the fee applicable to this work as well as other terms of the Contract will be negotiated as soon as possible.

Very truly yours,

WALTER E. KINGSTON
 GENERAL MANAGER
 AUG 17 1958

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Winston Davis
 Deputy Manager

CC: D. B. Metz
 J. J. Wise, B. & F.
 A. M. [unclear] Legal
 J. S. Hopkins, Admin.
 Manager's Files

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USDOE 017407

Attachment 9-

APR 1 9 1979

A. N. Isortz
General Manager

B. J. Ruseh, Director
of Production I. M. Yakinchick

PROPOSED ELIMINATION OF AEC OPTION TO PURCHASE THE HICKSVILLE PLANT IN
CONTRACT AE(30-1)-1293 WITH SYLVANIA-CORNING NUCLEAR CORPORATION (SYLCOG)

SUBJECT: PC:CCG

In a letter to the Chairman, dated May 7, 1979, Mr. Leo E. Borenstein, President, Sylcor, has indicated that an option of AEC to buy the Hicksville Plant, in the event of contract termination or expiration, represents a serious deterrent to the expansion of Sylcor's commercial activities in the nuclear field. He indicates that Sylcor has an immediate requirement to expand its commercial nuclear activities, but that any construction on its commercial site would have to be conditioned on the continued future availability of the site on which AEC has an option to purchase. He understands that Sylcor would need clear title to at least one of seven acres, on which AEC has an option to purchase, in order to meet zoning requirements on local zoning ordinances before it proceeds with construction.

Contract AE(30-1)-1293 was entered into by NED with Sylvania Electric Products, Inc. (predecessor to Sylcor) in 1971, for the purpose of conducting development work on experimental fuels for the reactor at Savannah River. Since it did not have a plant in which to perform the work, Sylvania bought the Hicksville Plant with its own funds, and the NED of AEC negotiated payment of a rental of \$1.09 per square foot of space occupied. Originally, the AEC work occupied approximately 40,000 square feet, but in recent years the decrease in AEC work since the start of the commercial work have reduced the space occupied by AEC for rental purposes to approximately 35,000 square feet. In addition to the seven acres which AEC has under option, Sylcor has purchased three adjacent acres on which it has erected commercial fuel facilities.

Sylvania's original purchase price of the Hicksville Plant was about \$363,000. AEC paid for about \$495,000 in improvements to the facilities. Because of AEC's large investment in improvements and in case Sylvania failed to perform satisfactorily under its contract, NED insisted on the option being in the contract.

The option provides that AEC, up to 120 days after expiration or termination, or at any time during occupancy by the Government because of

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AEC SECY Rm 58-66
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Box 1330
F: Contracts - Plans, U.2
USDOE 000081
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default by Sycor, can purchase the facilities, including the land, by paying the original purchase price for land and buildings plus additions and improvements by Sycor, less depreciation. If AEC did not exercise its option to purchase, it would be required by terms of the contract to restore the premises to their original condition. Possible dollars involved are as follows:

Original Purchase Price	
Land	\$ 16,145
Buildings	345,000
Sub-Total	<u>\$361,145</u>
Plus Improvements by Sycor	21,034
Sub-Total	<u>\$382,179</u>
Less Depres. to Date (5/1/59)	<u>80,000</u>
Estim. Purch. Price if AEC Exercised Option (5/1/59)	\$303,179
Restoration Costs	
Sylvania Estimate	\$138,000
SRD Estimate	\$ 27,000 to \$30,000

In an audit of June 30, 1954, the GAO alleged a profit in the rental charge by Sycor. During the course of the hearings between SRD and Sycor on this matter, Sycor indicated it would be willing to reduce the rental to a cost basis if AEC would give up its option to purchase the facilities. An appraisal was made at AEC's request by the Corps of Engineers to determine the value of the facilities. This appraisal placed a value of \$450,000 on the Hicksville Plant, of which \$100,000 was estimated to be due to AEC improvements. SRD was given permission to negotiate with Sycor relative to the rental charges and relinquishment of the option in December 1957, providing the modifications included the following:

1. The occupancy charge would be reduced to an actual cost basis, retroactive to July 1, 1956.
2. Sycor to release AEC from its obligation to restore the Hicksville Plant buildings to their normal condition.
3. Give AEC the right to renew the contract annually for a period of from 5 to 10 years, such period to be determined by negotiation.

(over)

A. R. Luedicke
General Manager

- 4. Have the value of ABC improvements appraised on a contract expiration or termination with payment to the ABC of their remaining value after giving consideration to the salvage value of renovations and improvements and costs of relocation.

During the negotiations, Sylcor withdrew its offer to reduce the rental charges since it appeared it would be necessary for the reduction in rental to be on a retroactive basis.

The option does not appear to be necessary at this time since Sylvania has successfully met ABC requirements under the contract. In addition, the option in case of termination or expiration of the contract could pose a problem to ABC. The Commission's option to buy the plant would be exercised within 180 days after expiration or termination of the contract. It would be difficult, if not impossible, to obtain the required Congressional authorization for the purchase of the plant by ABC. Furthermore, there should be considered the unlikelihood that the ABC would endorse or the Congress would authorize the purchase by ABC of a facility that would be no longer required for any programmatic purpose of ABC but would be required solely for the purchase of speculative re-sale.

It is my opinion that we should eliminate the option on the entire seven acres based on satisfactory negotiations with Sylcor. With your approval, I will instruct the Manager of Savannah River Operations to re-open discussions with Sylcor for elimination of the option on the entire property essentially on the basis as approved previously (see above). However, the effective date of rent reduction would be a matter for negotiation since it is entirely possible that a finding of adequate consideration can be made without requiring a rental reduction on a retroactive basis to June 30, 1959.

Please indicate your approval of my authorizing the Manager to negotiate with Sylcor for elimination of the option on the entire seven acres as set forth in the memorandum below.

Approved:

SIGNED, A. R. LUEDICKE
General Manager

MAY 15 1959

Concurred:

for 151 E. E. Ferguson
General Counsel

5/19
Etc

for 151 W. E. Campbell
Controller

5/19
Etc

GM READING FILE

RECEIVED
MAY 15 1959
GENERAL MANAGER
SAVANNAH RIVER OPERATIONS
U.S. ATOM. ENERGY COM. DIV.

30/0

SPONSORED TASK NO. GR-4

CONTRACT AT(30-1)-1295

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

Work under paragraph 2 of Article I shall be performed by the Contractor if and to the extent that the document provided for below is fully completed and executed.

AGREEMENT ADDING CERTAIN WORK TO CONTRACT NO. AT(30-1)-1295
BETWEEN THE UNITED STATES OF AMERICA AS REPRESENTED BY THE
UNITED STATES ATOMIC ENERGY COMMISSION AND SELWANIA CORNING
NUCLEAR CORPORATION

This Agreement entered into as of the 1st day of July 1959 between SELWANIA CORNING NUCLEAR CORPORATION (the 'Contractor'), and the UNITED STATES ATOMIC ENERGY COMMISSION (the 'Commission'), adds the following work under paragraph 2 of Article I of the above-identified contract:

1. Description of Work

Final machining of semi-finished Mark VII-A core blanks as described in two internal letters of Contractor, Mandate to Mats, dated June 22, 1959, one on the subject of process flow and the other on the subject of production schedules, as such procedures and schedules are modified by a letter dated July 1, 1959 from C. L. Karl, Manager of the Commission's Fernald Area Office, to the Contractor and in which the detailed specifications for the machining is also provided, which letters are incorporated herein by reference.

- 2. Except as follows, all of the provisions of said Contract are applicable with respect to the work added hereby) --- NONE.
- 3. The fixed fee for the work added hereby is \$4,625.
- 4. Performance of the work shall begin on or after July 1, 1959 and shall be completed on or before September 30, 1959.
- 5. \$81,715. has been obligated for the work hereby. (See paragraphs I, and 7.c. of Article IV of Prime Contract) and payments to the Contractor hereunder shall be made by the Commission's Oak Ridge Operations Office upon presentation by the Contractor of invoices to the Fernald Area Office.

AGREEMENT AMOUNT

<u>Estimated Cost</u>	<u>Fixed Fee</u>	<u>Total</u>
\$77,090.	\$4,625.	\$81,715.

CONTRACTS
2-1

Glice Brown

NARA II
EG 526
Accession 4NN 326-87-007
AEC Feed Materials Div. Corr. 1947
Box 19
1968

6. This Agreement will be administered for the Oak Ridge Operations Office by C. L. Karl, Manager, Fernald Area Office, P. O. Box 128, Mt. Healthy Branch, Cincinnati 31, Ohio.

SYLVANIA-CORNING NUCLEAR CORPORATION

BY: /s/ Garth W. Edwards

TITLE: President

UNITED STATES ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

BY: /s/ R. G. Burdette

TITLE: Acting Director
Contract Division

file 1000

NARA II
EG 326
Accession 4NN 326-87-007
AEC Fuel Materials Div Corr. 1947-
Box 1164

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James J. Wise, Director, Budget and Finance
Division, Savannah River Operations Office

JUL 23 1959

L. D. Mackay, Director of Finance, Oak Ridge

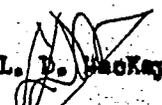
SYLVANIA-CORNING NUCLEAR CONTRACT AN-(30-1)-1173

SYMBOL: AFI:HSO

As you are aware, an Appendix O agreement to the subject contract is being negotiated between SROO and Sylcor that provides for Sylcor to perform auxiliary slug fabrication work. An agreement of this type requires special accounting treatment, which we would like to propose at this time:

1. Invoices will be submitted to the Fernald Area Office for administrative approval and will be paid by the Atomic Energy Commission, Oak Ridge.
2. Since NLO has provided for these costs under their operating budget, the cost will be transferred by AEC-CRO to NLO as a 325 fund transfer and identified under the proper cost-budget activity.
3. In order to associate these costs with the finished product shipped by Sylcor to SROO, NLO will transfer these costs to Sylcor as an AEC Form 325 product cost transfer after receipt of the transfer mentioned in 2. above. It should be noted that it will not be possible for NLO to reference this transfer to a shipping document (AEC Form 101) but instead, will identify the costs by Sylcor invoice number.

Please advise if the above proposal meets with your approval.


L. D. Mackay

CC: C. L. Karl, Area Manager, Fernald Area Office (2)
J. W. Ruch, Director, Feed Materials Division ✓

CONTRACTS
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G. L. Karl, Area Manager, Fernald
Area Office

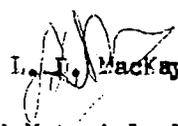
August 17, 1959

L. D. MacKay, Director of Finance, Oak Ridge

SYLVANIA-CORNING NUCLEAR CONTRACT AT-(30-1)-1293

SYMBOL: AFI:HSO

Reference is made to our memorandum of July 23, 1959, to J. J. Wise, Director, Budget and Finance Division, SROO, symbol AFI:HSO, on the above subject, two copies of which were forwarded to you. By memorandum of July 30, 1959, Mr. Wise has advised us that the accounting treatment proposed in our July 23 memorandum is acceptable to SROO. Accordingly, please advise NLC of the SROO concurrence on this matter.


L. D. MacKay

CC: J. W. Ruch, Director, Feed Materials Division ✓

BC: General Ledger Section

Feed Mat Acct Acct Br Finance Div

Oster:jw

8-14-59

CONTRACTS
17

3868

SPONSORED TASK NO. CH-4
MODIFICATION NO. 1

CONTRACT AT(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

This Modification entered into as of the 11th day of September, 1959, effective August 17, 1959, except as otherwise specifically provided herein, by and between SYDNEY-CORNING NUCLEAR CORPORATION (the Contractor) and the UNITED STATES ATOMIC ENERGY COMMISSION (the Commission).

WITNESSETH THAT

WHEREAS, the parties hereto have heretofore entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the Agreement) such Agreement having been entered into on July 1, 1959; and

WHEREAS, the parties hereto desire to modify said Agreement, as herein provided;

NOW THEREFORE, the Contractor and the Sponsor do mutually agree as follows:

1. The following new subparagraph is added to paragraph 1 - Description of Work:

Effective August 17, 1959, the Contractor shall proceed on final machining of semi-finished Mark VII-A cores at full capacity in accordance with authorization from Mr. C. L. Karl, Manager of the Commission's Fernald Area Office.

2. The fixed fee specified in paragraph 3 is increased by \$12,985. as a result of the work added hereby.
3. The completion date of the work stated in paragraph 4 is changed to December 31, 1959.
4. The amount obligated by paragraph 5 is increased by \$229,197. as a result of the work added hereby. The revised amount of the Agreement is now as follows:

	Estimated Cost	Fixed Fee	Total
Basic Agreement	\$77,090.-	\$4,625.-	\$81,715.-
This Modification No. 1	216,212.-	12,985.-	229,197.-
Revised Total	293,302.-	17,610.-	310,912.-

CONTRACTS
511

CERTIFIED TRUE COPY

BY *Glice Brown*

NARA II
EG-326
Accession: UANN-326-87-007
NEG Prod. M. L. S. D. I. C. G. M. V.

NARA 001285

3868

Except as otherwise provided in this modification, all the provisions of the agreement as heretofore modified or supplemented shall remain in full force and effect.

PENNSYLVANIA OIL COMPANY, INCORPORATED

By: [Signature]
Title: [Title]

U.S. ATOM. ENERGY COMMISSION
GENERAL INVESTIGATIVE DIVISION

By: [Signature]
Title: [Title]

[Handwritten Signature]

NARA II
RG 326
Accession 4NN 326-87-007
AEC Feed Materials Div. Corr. 1947
Box 19

NARA 001286

CONTRACT AT(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

14th December, 1959 *RSK*
JME

This Modification entered into as of the ~~14th~~ day of ~~December, 1959~~ effective January 1, 1960 except as otherwise specifically provided herein, by and between SYLVANIA-CORNING NUCLEAR CORPORATION (the 'Contractor'), and the UNITED STATES ATOMIC ENERGY COMMISSION (the 'Commission'),

WITNESSETH THAT:

WHEREAS, the parties hereto have heretofore entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the Agreement), such Agreement having been entered into on July 1, 1958, and

WHEREAS, the parties hereto desire to modify said Agreement, as herein provided;

NOW THEREFORE, the Contractor and the Sponsor do mutually agree as follows:

1. The following new subparagraph is added to paragraph 1 - Description of Work:

During the period January 1, 1960 through March 31, 1960, the Contractor shall proceed with the final machining of semi-finished Mark VII-A cores at full capacity.
2. The fixed fee specified in paragraph 3 is increased by \$9,500.- as a result of the work added hereby.
3. The completion date of the work stated in paragraph 4 is changed to March 31, 1960.
4. The amount obligated by paragraph 5 is increased by \$133,100.- as a result of the work added hereby. The revised amount of the Agreement is now as follows:

	<u>Estimated Cost</u>	<u>Fixed Fee</u>	<u>Total</u>
Obligated Thru Mod. #1	\$293,302.-	\$17,610.-	\$310,912.-
This Mod. #2	<u>123,600.-</u>	<u>9,500.-</u>	<u>133,100.-</u>
	416,902.-	27,110.-	444,012.-

NARA - SE
series 16 - Oak
Ridge Contract Files
Box H-178-18

Except as otherwise provided in this Modification, all the provisions of the agreement as heretofore modified or supplemented shall remain in full force and effect.

SYLVANIA-CORNING NUCLEAR CORPORATION

By: Garth W. Edwards
Garth W. Edwards
Title: Treasurer

U. S. ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

By: R. G. Humphries
R. G. Humphries, Director
Contract Division, ORQ
Title: _____

SPONSORED TASK NO. CH-4
MODIFICATION NO. 3

CONTRACT AT(30-1)-1292

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

This Modification entered into as of the 15th day of March, 1960 by and between SYLVANIA-CORNING NUCLEAR CORPORATION (the 'Contractor'), and the UNITED STATES ATOMIC ENERGY COMMISSION (the 'Commission').

WITNESSETH THAT:

WHEREAS, the parties hereto have heretofore entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the Agreement), such Agreement having been entered into on July 1, 1959, and

WHEREAS, said Agreement has been modified heretofore in a number of respects, and the parties hereto desire to modify said Agreement further, as herein provided;

NOW THEREFORE, the Contractor and the Sponsor do mutually agree as follows:

1. The following new subparagraph is added to paragraph 1 - Description of Work:

During the period April 1, 1960 through June 30, 1960, the Contractor shall proceed with the final machining of semi-finished Mark VII-A cores in the quantities specified by a confidential letter dated March 4, 1960 from C. L. Karl, Manager of the Commission's Vernald Area Office to the Contractor and which letter is incorporated herein by reference.

2. The fixed fee specified in paragraph 3 is increased by \$5,020.- as a result of the work added hereby.
3. The completion date of the work stated in paragraph 4 is changed to June 30, 1960.
4. The amount obligated by paragraph 5 is increased by \$88,810.- as a result of the work added hereby. The revised amount of the Agreement is now as follows:

	<u>Estimated Cost</u>	<u>Fixed Fee</u>	<u>Total</u>
Obligated Thru Mod. #2	\$416,902.	\$27,110.	\$444,012.
This Mod. #3	<u>88,790.</u>	<u>5,020.</u>	<u>88,810.</u>
	\$500,692.	\$32,130.	\$532,822.

NARA - SE
Series 16 - Oak
Ridge Contract
File
Rev 4-17-2-12

USDOE 013695

Except as otherwise provided in this Modification, all the provisions of the agreement as heretofore modified or supplemented shall remain in full force and effect.

SYLVANIA-CORNING NUCLEAR CORP.

By: Garth W. Edwards
Garth W. Edwards

Title: VICEPRES

U. S. ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

By: J. H. Jervis

Title: OAK RIDGE OPERATIONS

R. G. Summers, Director
Contract Division

March 30, 1960

John W. Ruch, Director
Feed Materials Division

SYLOR CONTRACT EXTENSION

SYMBOL: CR-210

We agree with Mr. Ruch that the Sylon Contract (AEC 30-1-123) for final machining of Mark VIII SOR type fuel elements should be extended through June 30, 1960.

In checking General's estimate of costs, some differences are encountered between theirs and ours, which are at this point unresolved. However, they are not of controlling importance.

A study shows that existing capability for zinc manufacture now on-stream, (including Sylon) is barely adequate to meet reactor requirements during the remainder of the fiscal year. In view of the definite need for the Sylon service, we recommend the contract extension.

John W. Ruch

CC: R. G. Armstrong

CONTRACTS

OFFICE	Feed Materials Division				
SURNAME	Hardison:mf	W. Kiser	J. Ruch		
DATE	3/30/60				

FE-ABC-818 (Rev. 9-54)

U. S. GOVERNMENT PRINTING OFFICE 16-62781-0

NARA II
EG 326
Accession 4NN 326-87-007
AEC Feed Materials Div. Corr. 1947
Box 63

F. Contracts - sylor

J. F. Caid, Jr., Chief Counsel

June 15, 1944

R. G. Humphries, Director, Contract Division

**EXTENSION OF GAK RING PORTION TO CONTRACT AC-(M-1)-1191
APPENDIX C - PENNSYLVANIA-CORNING SODIUM CORPORATION**

SYMBOL: ACAYAEJ

We are in receipt of classified memorandum dated June 7, 1944, from C. L. Karl, Area Manager, Fernald Area Office, requesting an extension of the subject contract through September 30, 1944. A copy of this memorandum and enclosure therein will be delivered to your office by hand. It is believed there is sufficient information in the Karl memorandum for the preparation of the modification. We concur in the fixed fee as shown, based on the estimated cost of work.

Original signed by
R. G. Humphries

R. G. Humphries

CC: John W. Ruch, Director, Feed Materials Division
C. L. Karl, Area Manager, Fernald Area Office

CONTRACTS

Dyl...

MARK II
RG 326
Accession 44NN 326-87-207
AEC Feed Materials Division
82-313

SPONSORED TASK NO. CH-4
MODIFICATION NO. 1

CONTRACT AT-(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

This Modification entered into as of the 30th day of June, 1960, by and between SYLVANIA-CORNING NUCLEAR CORPORATION (the "Contractor"), and the UNITED STATES ATOMIC ENERGY COMMISSION (the "Commission");

WITNESSETH THAT:

WHEREAS, the parties hereto have heretofore entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the "Agreement"), such Agreement having been entered into on July 1, 1959; and

WHEREAS, said Agreement has been modified heretofore in a number of respects, and the parties hereto desire to modify said Agreement further, as herein provided;

NOW, THEREFORE, the Contractor and the Sponsor do mutually agree as follows:

1. The following new subparagraph is added to Paragraph 1. - Description of Work:

During the period July 1, 1960, through September 30, 1960, the Contractor shall proceed at full capacity with the final machining of semi-finished Mark VII-A cores as heretofore provided in the contract and in accordance with the confidential letter dated June 7, 1960, from G. L. Karl, Manager of the Commission's Fernald Area Office to the Contractor, which letter is hereby incorporated herein by reference.

2. The fixed fee specified in Paragraph 3. is hereby increased by \$3,490 as a result of the work added hereby; provided, however, that if the Contractor is not successful in producing briquettes and reverts to oxidation of scrap during the period of this extension, the parties agree to negotiate in good faith an appropriate reduction of the fixed fee.

3. The completion date of the work stated in Paragraph 4. is changed to September 30, 1960.

4. The amount obligated by Paragraph 5. is increased by ~~\$55,330~~ ^{\$61,640.-} as a result of the work added hereby. The revised amount of the Agreement is now as follows:

NARA - SE
Series 16 - Oak Ridge
Contract Files
Box H-178-18

USDOE 013697

	<u>Estimated Cost</u>	<u>Fixed Fee</u>	<u>Total</u>
Obligated thru Mod. #3	\$500,692	\$32,130	\$532,822
	58,150		61,640
This Mod. #4	41,640	3,490	45,130
	\$458,842	\$35,620	\$494,462
	\$558,842		\$594,462

Except as otherwise provided in this Modification, all the provisions of the Agreement as heretofore modified or supplemented shall remain in full force and effect.

SYLVANIA CORNING NUCLEAR CORPORATION
 BY: Garth W. Edwards
 Garth W. Edwards
 TITLE: Treasurer

U. S. ATOMIC ENERGY COMMISSION
 OAK RIDGE OPERATIONS OFFICE
 BY: Ralph Elson
 Ralph Elson
 TITLE: Acting Director, Contract Division

SPONSORED TASK NO. CH-4
MODIFICATION NO. 5

CONTRACT AT-(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

This Modification entered into as of the 30th day of September 1960, by and between SYLVANIA-CORNING NUCLEAR CORPORATION (the "Contractor"), and the UNITED STATES ATOMIC ENERGY COMMISSION (the "Commission");

WITNESSETH THAT:

WHEREAS, the parties hereto have heretofore entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the "Agreement"), such Agreement having been entered into on July 1, 1959; and

WHEREAS, said Agreement has been modified heretofore in a number of respects, and the parties hereto desire to modify said Agreement further, as herein provided;

NOW, THEREFORE, the Contractor and the Sponsor do mutually agree as follows:

1. The following new subparagraph is added to Paragraph 1. -
Description of Work:

During the period October 1, 1960, through March 31, 1961, the Contractor shall proceed at full capacity with the final machining of semi-finished Mark VII-A cores as heretofore provided in the contract and in accordance with the classified letter dated September 9, 1960, from C. L. Karl, Manager of the Commission's Fernald Area Office to the Contractor, which letter is hereby incorporated herein by reference.

2. The fixed fee specified in Paragraph 3. is hereby increased by \$8,900 as a result of the work added hereby.

3. The completion date of the work stated in Paragraph 4. is changed to March 31, 1961.

NARA-SE
Series 16 - Oak
Ridge Contract Files
Box H-178-13

NARA 001827

4. The amount obligated by Paragraph 5. is increased by \$157,200 as a result of the work added hereby. The revised amount of the Agreement is now as follows:

	<u>Estimated Cost</u>	<u>Fixed Fee</u>	<u>Total</u>
Obligated thru Mod. #4	\$558,842	\$35,620	\$594,462
This Mod. #5	<u>148,300</u>	<u>8,900</u>	<u>157,200</u>
	\$707,142	\$44,520	\$751,662

Except as otherwise provided in this Modification, all the provisions of the Agreement as heretofore modified or supplemented shall remain in full force and effect.

SYLVANIA-CORNING NUCLEAR CORPORATION

BY: *Lee H. Newcomb*

TITLE: PRESIDENT

U. S. ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

BY: *R. G. Humphries*

R. G. Humphries

TITLE: Director, Contract Division, OROO

NARA 001828

SPONSORED TASK NO. CH-4
MODIFICATION NO. 6

CONTRACT AT-(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

THIS MODIFICATION, entered into as of the 30th day of February, 1961, by and among the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter called the "Commission"), SYLVANIA-CORNING NUCLEAR CORPORATION (hereinafter called the "Original Contractor"), and SYLVANIA ELECTRIC PRODUCTS, INC., SYLOR DIVISION (hereinafter called the "Successor Contractor" or the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Original Contractor entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the "Agreement"), such Agreement having been entered into on July 1, 1959, and having been modified heretofore by Modifications 1 through 5; and

WHEREAS, at a meeting of the Board of Directors of the Original Contractor held on December 20, 1960, official action was taken to dissolve the corporate structure of the Original Contractor and to establish the Original Contractor as a division of Sylvania Electric Products, Inc., effective January 1, 1961; and

WHEREAS, the Successor Contractor has acquired all of the assets of the Original Contractor and has assumed all of the liabilities and obligations of the Original Contractor; and

WHEREAS, the parties hereto desire to modify said Agreement further, to provide for the continued performance thereof by the Successor Contractor, and to provide additional changes as hereinafter set forth;

NOW, THEREFORE, the parties hereto agree that the Agreement, as heretofore modified, is hereby modified further in the following particulars, but in no others:

1. Effective January 1, 1961, wherever the word "Contractor" appears in this Agreement, it shall be deemed to mean Sylvania Electric Products, Inc., Sylor Division.

CONTRACTS

NARA II
EG 326
Accession 4NN 326-87-007
AEC Prod Materials Div. Cont. 1947
Box 69

SYL00051294

2. The Successor Contractor shall perform all obligations and assume all liabilities of the Original Contractor as set forth in said Agreement, as amended, which have not been previously performed and satisfied. The Successor Contractor hereby ratifies and confirms all actions heretofore taken by the Original Contractor with respect to said Agreement with the same force and effect as if the action had been taken by the Successor Contractor.

3. The Original Contractor hereby confirms the assignment, conveyance and transfer of the Agreement to the Successor Contractor, and does hereby release and discharge the Government and the Commission from, and does hereby waive, any and all claims, demands, and rights against the Government and/or the Commission which the Original Contractor now has or may hereafter have in connection with said Agreement.

4. The Government hereby recognizes the Successor Contractor as the Original Contractor's successor in interest in and to the Agreement. The Successor Contractor hereby becomes entitled to all right, title, and interest of the Original Contractor in and to said Agreement in all respects as if the Successor Contractor were the original party to said Agreement.

5. Except as expressly provided herein, nothing in this Agreement shall be construed as a waiver of any rights of the Government and/or Commission against the Original Contractor.

6. Notwithstanding the foregoing provisions, all payments and reimbursements heretofore made by the Government to the Original Contractor or to the Successor Contractor, and all other action heretofore taken by the Government and/or the Commission, pursuant to its and/or their obligations under the Agreement, shall be deemed to have discharged pro tanto the obligations of the Government and/or the Commission under said Agreement. All payments and reimbursements made by the Government after the date of this Agreement in the name of or to the Original Contractor shall have the same force and effect as if made to the Successor Contractor and shall constitute a complete discharge of the obligations of the Government and/or the Commission under said Agreement, to the extent of the amounts so paid or reimbursed.

7. Delete the subparagraph added to Paragraph 1. - Description of Work by Modification No. 5 to the Agreement and substitute therefor the following:

"During the period October 1, 1960, through March 31, 1961, the Contractor shall proceed with the final machining of semi-finished Mark VII-A cores as heretofore provided in the Agreement and in accordance with the classified letters dated September 9, 1960, and December 21, 1960, from G. L. Karl, Manager of the

NASA II
EG 266
Accession 4NN 326-87-007
AEC (200) 1400000 D.V. Corr. 1447
1964

491

Commission's Fernald Area Office, to the Contractor and Contractor's letter dated January 5, 1961, to Mr. Karl, which letters are hereby incorporated herein by reference."

8. The fixed fee specified in Paragraph 3. is hereby increased by \$494.00, reflecting adjustments in fee resulting from the changes in the scope of work referred to in 7. above and a reduction in fee of \$266.00 for the period July 1, 1960, through September 30, 1960, agreed by the parties as provided in Paragraph 2. of Modification No. 4.

9. The amount obligated by Paragraph 5. is increased by \$13,194.00 as a result of the changes in work and adjustments made herein. The revised amount of the Agreement is now as follows:

	Estimated Cost	Fixed Fee	Total
Obligated thru Modification No. 5	\$707,142.00	\$44,520.00	\$751,662.00
This Modification No. 6	12,700.00	494.00	13,194.00
	\$719,842.00	\$45,014.00	\$764,856.00

Except as otherwise provided in this modification, all the provisions of the Agreement as heretofore modified or supplemented shall remain in full force and effect.

UNITED STATES OF AMERICA

BY: UNITED STATES ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

BY: /s/ R. G. Hamerling
R. G. Hamerling
Director, Contract Division, OROO

SYLVANIA-CORNING NUCLEAR CORPORATION

BY: /s/ Lee L. Davanport
Lee L. Davanport
President

SYLVANIA ELECTRIC PRODUCTS, INC.

BY: /s/ Lee L. Davanport
Lee L. Davanport
General Manager

WITNESSES:
/s/ M. C. Colten
M. C. Colten
Hicksville, New York
(Address)

/s/ Grace Goldan
Grace Goldan
Hicksville, New York
(Address)

NAPA II
EG 266
Accession 4NN 326-87-007
AEC Form Mod. 115 D-1 Corr. 1947
Box 64 1960

SPONSORED TASK NO. CH-4
MODIFICATION NO. 7

CONTRACT AT-(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

THIS MODIFICATION, entered into as of the 28th day of April, 1961, by and between the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter called the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC., SYLCOR DIVISION (hereinafter called the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the "Agreement"), such agreement having been entered into on July 1, 1959, and having been modified heretofore by Modifications 1 - 6; and

WHEREAS, the parties hereto desire to modify said agreement further as herein provided;

NOW, THEREFORE, the parties hereto agree that the Agreement, as heretofore modified, is hereby modified further in the following particulars, but in no others:

1. The following new subparagraph is added to Paragraph 1.,
Description of Work:

"During the period April 1, 1961, through September 30, 1961, the Contractor shall proceed with the final machining of semi-finished Mark VII-A cores as heretofore provided in the Agreement and in accordance with the classified letter dated March 16, 1961, from G. L. Karl, Manager of the Commission's Fernald Area Office, to the Contractor and Contractor's letter dated March 27, 1961, which letters are hereby incorporated herein by reference."

2. The fixed fee specified in Paragraph 3. is hereby increased by \$7,670.00 as a result of the work added hereby.

3. The completion date of the work stated in Paragraph 4 is changed to September 30, 1961.

NARA - SE
Series 16 - Oak Ridge
Contract Files
Box H - 178 - 13

NARA 001806

4. The amount obligated by Paragraph 5. is increased by \$135,460.00 as a result of the work added hereby. The revised amount of the Agreement is now as follows:

	<u>Estimated Cost</u>	<u>Fixed Fee</u>	<u>Total</u>
Obligated thru Modification No. 6	\$719,842.00	\$45,014.00	\$764,856.00
This Modification No. 7	127,790.00	7,670.00	135,460.00
	<u>\$847,632.00</u>	<u>\$52,684.00</u>	<u>\$900,316.00</u>

Except as otherwise provided in this modification, all the provisions of the Agreement as heretofore modified or supplemented shall remain in full force and effect.

UNITED STATES OF AMERICA

BY: UNITED STATES ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

BY: *R. G. Humphries*
R. G. Humphries

TITLE: Director, Contract Division, OROO

WITNESSES:

M. C. Cullen
M. C. Cullen
Hicksville, N.Y.
(Address)

G. Golden
G. Golden
Hicksville, N.Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.
SYLCOR DIVISION

BY: *D. B. Metz*
D. B. Metz

TITLE: Manufacturing Manager

UNCLASSIFIED

June 5, 1961

UNCLASSIFIED
 DOES NOT CONTAIN UNCLASSIFIED
 CONTROLLED NUCLEAR INFORMATION
 ADC & ADD
 Reviewing *V.M. Gardner* CG-NRP-2 9-00
 Official
 V.M. Gardner, DOE-SR Classification Analyst
 Date: 4-3-03

Files

N. J. Donahue, Chief, Reactor Materials Branch, Technical & Production Division

CONTRACT AT(30-1)-1293, SCOPE OF WORK - MARK V-B PROGRAM

Document No. SR-~~TM-7709~~

This document consists of 1 pages

TM:RJD:jbf

No. 3 of 8 Copies, Series A

A consideration of the change in estimated Mark V-B "best efforts" hardware schedule, shifting the emphasis from less costly outer fuel to more expensive inner fuel, at an estimated increase in cost of approximately \$25,000, with an increase of approximately 100 total pieces might be considered a marginally significant change in scope. However, when this change is considered together with the additional work (estimated to cost approximately \$42,000 more) and described in the Sylcor proposal as "produce adequate mechanically attached finned pieces for flow and reactor tests as well as pieces of the locked fuel sets, a new development by Sylcor Division," the changes certainly constitute an increase in scope of work over that contracted for beginning April 1, 1961, as Modification No. 27.

Technical & Production Division considers that the latter developments are most significant contributions to the overall Mark V-B production program in Savannah River reactors. The mechanically attached fin pieces will be produced for flow tests at Savannah River as soon as the special aluminum components can be procured from Alcoa. If satisfactory flow tests result, additional pieces will be procured for irradiation testing. The potential cost savings associated with this development are estimated to be a drop in fabrication costs from the current \$9.50 per pound to \$1.50 per pound.

An even more significant development proposed by Sylcor is the locked rib design which utilizes two easily fabricated unfinned pieces assembled with a set of aluminum fins rigidly locked into place after fabrication and inspection. The technical and economic aspects of this concept have been presented separately to SROO management and du Pont management at Wilmington, and have been received at both places with considerable optimism. A similar presentation is scheduled for du Pont management at SRP on June 7. The economic potential here is estimated at a decrease in fabrication costs from the current \$9.50 per pound to 40¢ per pound, the latter being slightly lower than the current Mark VII-A fabrication costs. It is the intention of AEC and du Pont management to pursue these concepts vigorously at least through the irradiation stage.

- Distribution:
 1A - Files
 2A - A. M. Coker, Legal
 3A - R. A. McFeely, Adm.
 4A - A. Y. Morgan, B&F

UNCLASSIFIED

Classification Cancelled
 Date 12/5/73
 For the U.S. Atomic Energy Commission
Russell M. Morley
 Division of Classification

RESTRICTED DATA

SPONSORED TASK NO. CH-4
MODIFICATION NO. 78

CONTRACT AT-(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

THIS MODIFICATION, entered into as of the 24th day of January, 1961, by and between the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter called the "Commission"), and SYLVANIA ELECTRIC PRODUCTS INC., SYLCOOR DIVISION (hereinafter called the "Contractor"),

WITNESSETH THAT:

WHEREAS, the Government and the Contractor entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the "Agreement"), such agreement having been entered into on July 1, 1959, and having been modified heretofore by Modifications 1-7; and

WHEREAS, the parties hereto desire to modify said agreement further as herein provided;

NOW, THEREFORE, the parties hereto agree that the Agreement, as heretofore modified, is hereby modified further in the following particulars, but in no others:

1. The following new subparagraph is added to Paragraph 1., Description of Work:

"During the period October 1, 1961, through March 31, 1962, the Contractor shall proceed with the final machining of semifinished Mark VII-A cores as heretofore provided in the Agreement and in accordance with the classified letter dated August 28, 1961, from C. L. Karl, Manager of the Commission's Cincinnati Area Office, to the Contractor and Contractor's letter dated September 13, 1961, which letters are hereby incorporated herein by reference."

2. The fixed fee specified in Paragraph 3. is hereby increased by \$7,950.00 as a result of the work added hereby.

3. The completion date of the work stated in Paragraph 4. is changed to March 31, 1962.

CONTRACTS
CERTIFIED A TRUE COPY

BY Alice Brown

NARA II
RG 326
Accession 44N 326-87-007
AEC Feed Materials Div. G-197
Box 17

NARA 001287

4. The amount obligated by Paragraph 5 is increased by \$140,440.00 as a result of the work added hereby. The revised amount of the Agreement is now as follows:

	Estimated Cost	Fixed Fee	Total
Obligated thru Modification No. 7	\$847,632.00	\$57,684.00	\$905,316.00
This Modification No. 8	132,490.00	7,950.00	140,440.00
	<u>\$980,122.00</u>	<u>\$65,634.00</u>	<u>\$1,045,756.00</u>

Except as otherwise provided in this modification, all the provisions of the Agreement as heretofore modified or supplemented shall remain in full force and effect.

UNITED STATES OF AMERICA

BY: UNITED STATES ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

BY: /s/ R. G. Humphries
R. G. Humphries
TITLE: Director, Contract Division, ORCO

WITNESSES:

/s/ Grace Golden
Grace Golden
Hicksville, New York
(Address)

/s/ Milton Bell
Milton Bell
Hicksville, New York
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.
SYLCOOR DIVISION

BY: /s/ D. B. Metz
D. B. Metz
TITLE: Manufacturing Manager

NARA II
RG 326
Accession 4NN 326-87-007
AEC Feed Materials Div. Corr. 1947
1947

NARA 001288

3. Transfer of Site. The Contractor agrees not to sell, lease, license, or otherwise transfer ownership or occupancy of any part of its land, buildings, or facilities on (1) Site A, or (2) the areas, together with buildings or facilities thereon, marked in red crosshatch in Appendix "D" of this Agreement without expressly making such sale, lease, license, or other transfer subject to the provisions of subparagraph (d) of paragraph 2. of Article III - TERM, EXPIRATION AND TERMINATION, of this Agreement. The Contractor further agrees that in the event it sells, leases, licenses, or otherwise transfers ownership, occupancy, or possession of any part of its land, buildings, or facilities referred to in this paragraph, it will hold the Government harmless from any and all damage that may result to the Government from such sale, lease, license, or transfer.
4. Non-Contract Activities. The Contractor shall not engage in or permit others to engage in activities at Site A other than activities in the performance of work under this Agreement without the approval of the Commission.

ARTICLE III - TERM, EXPIRATION AND TERMINATION

1. Term. Subject to the provisions of this Article, the period of performance of the work under this Agreement shall end on September 30, 1962; provided, however, that the Government, in its sole discretion, shall have the unilateral right from time to time to extend the period of performance under this Agreement for a consecutive period or periods through September 30, 1964, upon written notice or notices to the Contractor of its intention to extend the Contract for such period or periods. Each such written notice shall identify to the Contractor the scope of work to be performed by the Contractor during the period in which the Contract is to be extended. The amount of fixed fee for each Contract extension shall be mutually agreed upon, and failure to agree thereon shall be deemed to be a dispute as to a question of fact and shall be determined in accordance with the General Provision entitled DISPUTES, hereof. The rights and remedies of the Government for any failure of the Contractor, for reasons beyond its control and which did not result from any act(s) or omission(s) on its part, to agree to any extension of the period or periods of performance provided for in this paragraph shall be limited to the provisions of subparagraph (d) of paragraph 2. of Article III - TERM, EXPIRATION AND TERMINATION.
2. Termination.
 - (a) For Default. The performance of the work under paragraph 1 of Article I and under any or all of the agreements under paragraph 2 of Article I may be terminated by the Commission in whole or in part by reason of the breach by the Contractor of any of the provisions of this Agreement. The performance of the work under any Sponsor Agreement may

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be terminated by the Sponsor in whole or in part by reason of the breach by the Contractor in regard to said work of any of the provisions of this Agreement. Where both reasonable and practicable, in the light of the nature of the breach and its effect on the other party, the Commission, or the Sponsor in the case of a Sponsor Agreement, will give the Contractor written notice of the breach and of its intent to terminate by reasons thereof and the opportunity to cure the default promptly.

(b) For the Convenience of the Government. The performance of the work under Article I of this Agreement or any part of said work may be terminated by the Commission for the convenience of the Government. The performance of the work under any Sponsor Agreement may be terminated by the Sponsor with the approval of the Commission for the convenience of the Government.

(a) Notice of Termination. Termination, under this paragraph, shall be effected by delivery to the Contractor of a written notice of termination, which notice (i) shall specify a date upon which said termination shall become effective, which date shall be at least sixty (60) days after the delivery of said notice; (ii) in the event of a termination in part, shall specify the portion or portions of the work so terminated and the period or periods during which said termination shall be effective; and (iii) shall specify whether said termination is for the default of the Contractor or for the convenience of the Government. Upon receipt of said notice of termination, the Contractor promptly, except as the notice may direct otherwise, shall (i) discontinue all terminated work as soon as is reasonably practicable, if the notice so directs, and in any event by the date specified in said notice of termination; (ii) cease all placing of orders for property or services in connection with the performance of the terminated work; (iii) proceed to the best of its ability to terminate all orders and subcontracts to the extent that they relate to the terminated work; (iv) assign to the Government, in the manner and to the extent directed by the Commission, all the right, title and interest of the Contractor under the terminated portion of the orders and subcontracts so terminated; (v) settle, with the approval of the Commission, or the Sponsor in the case of a Sponsor Agreement, all subcontracts, obligations, commitments and claims related to the terminated work, the cost of which would be allowable in accordance with the provisions of this Agreement; (vi) continue performance of such part of the Agreement work, if any, as shall not have been terminated; and (vii) take such other action with respect to the terminated work as may be required under other Articles of this Agreement and, subject to the approval of the Commission, as may be otherwise appropriate including but not limited to action for the protection and preservation of Government property.

(c) Entry by Government After Default.

(A) If, prior to September 30, 1964, performance of all of the work under this Agreement is terminated for the default of the Contractor or the Contractor refuses to agree to any extension of

the period of performance as provided in paragraph 1. of Article III - TERM, EXPIRATION AND TERMINATION, the Government may enter upon and occupy Site A exclusively for such period of time as it may deem desirable from a time no later than thirty (30) days after the date of such default or after the date of expiration following such refusal through September 30, 1964, but not after September 30, 1964, by paying to the Contractor, for each month of such occupancy of Site A, a monthly charge in full satisfaction of all claims of the Contractor against the Government arising out of said entry, including the Contractor's loss of use of said facilities, except as otherwise provided in paragraph 1. of Article XIX - INDEMNITY, and the fair rental value of said premises and facilities but excluding all other claims arising out of the Government's use and occupancy of said premises and facilities. Said monthly charge shall be 1/12 of the actual annual costs and expenses attributable to Site A, including but not limited to such items as taxes, insurance except workmen's compensation insurance, and such other costs as may be approved by the Commission.

- (ii) After termination for the default of the Contractor and the exercise of the right conferred upon the Government to occupy the premises, as provided in (i) above, the Government may (a) enter upon and have exclusive occupancy of Site A; (b) take possession of all Government property in Site A and, for the period of said occupancy, take possession of all materials, tools, machinery, and appliances in Site A which may be owned by or in possession of the Contractor and used solely in connection with the work under this Agreement; (c) exercise during said occupancy, in its own name and for its own account, all options, privileges and rights belonging to or exercisable by the Contractor in connection with said premises and facilities; and (d) for its own account and for its own use, fabricate, process, and complete, or employ others to fabricate, process, or complete, therein research and development and production work on fuel elements.
- (iii) In addition, the Commission shall, within the limits of its authority, indemnify and hold the Contractor harmless against any damages finally awarded by a court, agency, or board of competent jurisdiction, or settlements made with the consent of the Commission, and against reasonably necessary expenses incident to any action before such court, agency, or board, or to settlement, where such awards and settlements are based on claims by third parties against the Contractor arising out of the Government's use and occupancy of said premises or facilities, or the exercise by the Government of any of the rights or privileges belonging to the Contractor pursuant to this subparagraph (d). Moreover, except as provided in subparagraph (i) above, and except for reasonable wear and tear to such property, the Commission shall also, within the limits of its authority, indemnify and hold the Contractor harmless against physical damage to or physical loss of the Contractor's own property which may arise out of the Government's use and occupancy of said premises and facilities.

(e) Terms of Settlement. Upon a termination of all or part of the work under this Agreement, full and complete settlement of all claims of the Contractor with respect to the work of this Agreement so terminated shall be made as follows:

- (i) Assumption of Contractor's Obligations. The Government may, at the discretion of the Commission, assume and become liable for all obligations, commitments, and claims that the Contractor may have theretofore in good faith undertaken or incurred in connection with the terminated work, the cost of which would be allowable in accordance with the provisions of this Agreement; and the Contractor shall, as a condition of receiving the payments mentioned in this Article, execute and deliver all such papers and take all such steps as the Commission may require for the purpose of fully vesting in the Government all the rights and benefits of the Contractor under such obligations or commitments.
- (ii) Payment for Allowable Costs. The Government, or the Sponsor in the case of a Sponsor Agreement, shall reimburse the Contractor or allow credit for all allowable costs incurred in the performance of the terminated work and not previously reimbursed or otherwise discharged.
- (iii) Payment for Close-Out Expense. The Government, or the Sponsor in the case of a Sponsor Agreement, shall reimburse the Contractor (a) for such close-out expenses, (b) for such further expenditures as are made after the date of termination for the protection of the Government property, and (c) for such legal and accounting services in connection with settlement, as are required or approved by the Commission, or the Sponsor in the case of a Sponsor Agreement.
- (iv) Payment on Account of Fixed Fees.
 - (a) If the performance of the work under paragraph 1 of Article I or any Appendix "C" Agreement under paragraph 2 of said Article of this Agreement is terminated in whole for the default of the Contractor, no further payment shall be made of fixed fee for any uncompleted part of the work under such paragraph, nor shall any further part of the 10% of the fixed fee for the work under such paragraph, withheld in accordance with Article VI, be paid; provided, however, that the Contractor shall be paid with respect to the terminated work under such paragraph 90% of a sum determined by applying a percentage to the total fee applicable to such work, such percentage to be determined by dividing the amount of work completed under such paragraph (including without limitation preparation and development work thereunder after October 1, 1961) by the total amount of work provided for under such paragraph, provided further that the Contractor shall refund to the Government

or Sponsor if applicable, any fixed fee received for work under such paragraph which is in excess of the amount determined under the preceding formula.

(b) If the performance of the work under this Agreement is terminated in whole for the convenience of the Government, the Contractor shall be paid that portion of the fixed fee applicable to the work under paragraph 1 of Article I and to each Appendix "C" Agreement under paragraph 2 of said Article, respectively, which the work actually completed under each such paragraph and Agreement, respectively, as determined by the Commission, bears to the entire work under each such paragraph and Agreement, respectively, less payments previously made on account of each such applicable fixed fee.

(c) If the performance of the work under paragraph 1 of Article I of this Agreement or under any Appendix "C" Agreement under paragraph 2 of Article I of this Agreement, is terminated in part for the convenience of the Government, the Contractor and the Commission, or the Sponsor if applicable, shall promptly negotiate and agree upon an equitable adjustment of the fixed fee applicable to the terminated portion of the work, and the agreement reached shall be evidenced by a written executed supplemental agreement to this Agreement or the appropriate Appendix "C" Agreement, if applicable. If the Contractor and the Commission, or the Sponsor if applicable, fail to so agree upon such fee adjustment within a reasonable time after such partial termination, failure to agree shall be disposed of in accordance with the General Provision entitled DISPUTES, hereof.

3. Expiration. In the event of expiration of the period of work performance hereunder without prior termination hereof, the Contractor shall (i) discontinue the agreement work under this Agreement at the end of the day of expiration and (ii) take such other action as may be required under other provisions of this Agreement and subject to the approval or ratification of the Commission, as may be otherwise appropriate, including but not limited to action for the protection and preservation of Government property.
4. Claims in Favor of the Government. The obligation of the Government to make any of the payments required by this Article shall be subject to any unsettled claims in connection with this Agreement which the Government may have against the Contractor. Nothing contained in this Article shall be construed to limit or affect any other remedies which the Government may have as a result of a default by the Contractor.
5. Settlement upon Termination or Expiration. Any other provisions of this Agreement to the contrary notwithstanding, the Contractor and the Commission, or the Sponsor if applicable, may agree upon the whole or any part of the

amount or amounts which the Contractor is to receive upon and in connection with (i) any termination pursuant to this Article or (ii) expiration of the term of this Contract without prior termination thereof. Any agreement so reached shall be evidenced by a written supplemental agreement to this Contract, or Appendix "C" Agreement if applicable, which shall be final and binding upon the parties with regard to their respective claims against each other except as therein otherwise expressly provided.

ARTICLE IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE

1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$21,657,850 exclusive of the Contractor's fixed fee. The Contractor's fixed fee, as set forth in paragraph 2, Article V of this Contract, is \$1,192,099. The estimated cost of the work, as described in paragraph 1 of the Article entitled SCOPE OF THE WORK, for the period October 1, 1961, to March 31, 1962, is \$2,040,840, exclusive of the Contractor's fixed fee of \$101,450.
2. Obligation of Funds. The amount presently obligated by the Government with respect to this Contract is \$22,849,949. The amount of obligation under this Contract may be increased unilaterally by the Commission by written notice to the Contractor and may be decreased by written agreement of the parties (whether or not by formal modification of this Contract).
3. Revised Estimate of Cost and Fixed Fee. The presently estimated cost of the work and fixed fee under this Contract may be increased or decreased by written agreement of the parties (whether or not by formal modification of this Contract) and such revised estimate plus the fixed fee shall be deemed substituted in paragraph 1, above.
4. Limitation of Obligation. Payments on account of costs shall not in the aggregate at any time exceed the amount of funds presently obligated hereunder less the Contractor's fixed fee.
5. Notice of Costs Approaching Funds Obligated--Contractor Excused Pending Increase When Obligation is Reached. Whenever the Contractor has reason to believe that the total cost of the work under this Contract (exclusive of the Contractor's fixed fee) will be substantially greater or less than the presently estimated cost of the work the Contractor shall promptly notify the Contracting Officer in writing. The Contractor shall also notify the Contracting Officer in writing when the aggregate of expenditures and outstanding commitments allowable under this Contract, including the Contractor's fixed fee, is equal to ninety per cent (90%) (or such other percentage as the Contracting Officer may from time to time establish by notice to the Contractor) of the amount of funds presently obligated hereunder. When such expenditures and outstanding commitments, including the Contractor's fixed fee, equal one hundred per cent (100%) of such amount the Contractor shall make no further commitments or expenditures (except to meet existing commitments) and shall be excused from further performance of the work unless and until the Contracting Officer thereafter shall increase the funds obligated with respect to this Contract.

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work under this Contract but in no event later than one (1) year (unless within the year the Contracting Officer grants a further specific period of time) from the date of such completion.

6. Applicable Credits. The Contractor agrees that any refunds, rebates, credits, or other amounts (including any interest thereon) accruing to or received by the Contractor or any assignee under this Contract shall be paid by the Contractor to the Government to the extent that they are properly allocable to costs for which the Contractor has been reimbursed by the Government under this Contract. Reasonable expenses incurred by the Contractor for the purpose of securing such refunds, rebates, credits, or other amounts shall be allowable costs hereunder when approved by the Contracting Officer.
7. Financial Settlement. Prior to final payment under this Contract, the Contractor and each assignee under this Contract whose assignment is in effect at the time of final payment under this Contract shall execute and deliver:
- (a) an assignment to the Government, in form and substance satisfactory to the Contracting Officer, of refunds, rebates, credits or other amounts (including any interest thereon) properly allocable to costs for which the Contractor has been reimbursed by the Government under this Contract; and
 - (b) a release discharging the Government, its officers, agents, and employees from all liabilities, obligations, and claims arising out of or under this Contract, subject only to the following exceptions:
 - (i) specified claims in stated amounts or in estimated amounts where the amounts are not susceptible of exact statement by the Contractor.
 - (ii) claims, together with reasonable expenses incidental thereto, based upon liabilities of the Contractor to third parties arising out of performance of this Contract; provided that such claims are not known to the Contractor on the date of the execution of the release; and provided further that the Contractor gives notice of such claims in writing to the Contracting Officer not more than six (6) years after the date of the release or the date of any notice to the Contractor that the Government is prepared to make final payment, whichever is earlier; and
 - (iii) claims for reimbursement of costs (other than expenses of the Contractor by reason of any indemnification of the Government against patent liability), including reasonable expenses incidental thereto, incurred by the Contractor under the provisions of this Contract relating to patents.
8. Claims. Claims for payment shall be accompanied by such supporting documents and justification as the Contracting Officer shall prescribe.

9. Discounts. The Contractor shall take and afford the Government the advantage of all known and available cash and trade discounts, rebates, allowances, credit, salvage, and commissions unless the Contracting Officer finds that such action is not in the best interest of the Government.
10. Revenues. All revenues other than the Contractor's fixed fee or fees, if any, accruing to the Contractor in connection with the work under this Contract shall be applied in reduction of allowable costs.
11. Direct Payments of Charges - Deductions. The Government reserves the right, upon ten (10) days written notice from the Contracting Officer to the Contractor, to pay directly to the persons concerned, all amounts due which otherwise would be allowable under this Contract. Any payment so made shall discharge the Government of all liability to the Contractor therefor.
12. Payments Under Appendix "C" Agreements. Payment of all costs and fixed fee under any Appendix "C" Agreement shall be made to the Contractor by the Commission office or Sponsor executing the Agreement in accordance with the procedures established by said Agreement.

ARTICLE VII - GOVERNMENT PROPERTY

1. Except as otherwise specifically agreed upon in writing by the Contractor and the Commission and except as otherwise specifically provided herein:
 - (a) Title to all property especially purchased by the Contractor for this Agreement, for which the Contractor is entitled to direct reimbursement under the provisions of this Contract, shall pass directly from the vendor to the Government, and
 - (b) Title to all property utilized in the work of this Agreement, provided by the Contractor from Contractor-owned stores or manufactured by the Contractor in the ordinary course of its commercial business, for which the Contractor is entitled to reimbursement under the provisions of this Contract, shall pass to the Government at the time of such utilization.
2. The Government reserves the right to furnish any property or services required for or useful in the performance of the work under this Agreement. Title to all property so furnished shall remain in the Government.
3. The Government shall retain title to all products, by-products, wastage, salvage, work-in-process, residues and scrap resulting from property to which the Government has or had title pursuant to paragraphs 1 and 2 above.
4. All items of Government-owned property referred to above are hereafter collectively referred to in this Article as "Government Property."

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To the extent practicable, the Contractor shall cause all nonexpendable items of Government property to be suitably marked with an identifying mark or symbol indicating that the items are the property of the Government. The Contractor shall maintain, at all times and in a manner satisfactory to the Commission, records showing the disposition and use of Government property. Such records shall be subject to Commission inspection at all reasonable times. It is understood that the Commission shall at all reasonable times have access to the premises wherein any items of Government property are located.

5. The Contractor shall promptly notify the Commission of any loss or destruction of or damage to Government property (but not of any consumption of materials or supplies in the performance of its undertakings hereunder). Except as otherwise specifically provided in this Agreement, the Contractor shall not be liable for loss or destruction of or damage to Government property (in the possession or custody of the Contractor in connection with this Agreement) unless such loss, destruction or damage is due to gross negligence or wilful misconduct attributable to the Contractor's corporate officers or its supervisory employees.
6. Except as otherwise authorized in writing by the Commission, items of Government property referred to above shall not be used by the Contractor except in the performance of its obligations under this Agreement.
7. In the event of loss or destruction of or damage to Government property, the Contractor shall take such steps to subserve the Government's interest as the Commission authorizes or approves. If the Contractor is liable for loss or destruction of or damage to any items of Government property, it shall promptly account therefor to the satisfaction of the Commission; if the Contractor is not liable therefor, and is indemnified, reimbursed, or otherwise compensated for such loss, destruction or damage (other than by the Government under this Agreement), the Contractor shall promptly account to the Government for an equitable share of such indemnification, reimbursement, or other compensation; in any event, the Contractor shall do nothing to prejudice the Government's rights to recover against third parties for any such loss, destruction or damage, and, upon request of the Commission, shall furnish the Government all reasonable assistance and cooperation (including the prosecution of suit and the execution of instruments of assignment in favor of the Government) in obtaining recovery.
8. The Contractor may, with the approval of the Commission, (a) transfer or otherwise dispose of items of Government property to such parties and upon such terms and conditions as so approved, or (b) itself acquire title to items of property at prices mutually agreed upon by the Commission and the Contractor without the necessity of execution of an amendment to this Agreement. The proceeds of any such transfer or disposition, and the agreed price of any such Contractor acquisition, shall be applied in reduction of any payments or reimbursement to be made by the Government to the Contractor under this Contract or shall otherwise be paid in such manner as the Commission may direct.

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9. The Contractor shall conform to all regulations and requirements of the Commission concerning the management, inventory control, storing and disposal of Government property. The Contractor agrees to prepare and submit to the Commission for review, within sixty (60) days after the execution of this Agreement, a written statement of the methods to be used and of the procedures to be followed by the Contractor in regard to management, inventory control, storing and disposal of Government property. The Contractor shall not use any method or procedure in this regard which the Commission has advised the Contractor is contrary to Commission policy or which is otherwise prohibited by this Agreement.
10. With respect to each item of Government property located at Site A not sold or otherwise disposed of by the Contractor or acquired by the Contractor pursuant to paragraph 8 above, the Government, within one hundred twenty (120) days following the termination or expiration of the period of performance of this Contract, or any extension thereof, shall abandon or remove it, without incurring any further liability to the Contractor.

(a) In the event the Government occupies Site A pursuant to subparagraph d(4) of paragraph 2 of Article III - TERM, EXPIRATION AND TERMINATION, the rights in the Government to abandon or remove, as set forth in this paragraph, shall be suspended during the period of such occupancy and the one hundred twenty (120) day period during which the Government must either abandon or remove such property shall not commence to run until the end of such occupancy.

(b) Prior to determination by the Government to abandon or remove any item of Government property, the Contractor agrees, if the Government so requests, to negotiate with the Government in good faith to purchase such item or items at a price mutually agreed upon, it being understood, however, that the Contractor shall not be required to negotiate any price in excess of the value to the Contractor of said item or items.

(c) There shall be no charge to the Government by the Contractor for the storage of such property (i) for one hundred twenty (120) days after termination or expiration of this Contract; (ii) for one hundred twenty (120) days after (a) September 30, 1964, or (b) such earlier date as the Government may voluntarily terminate its right of occupancy as hereinabove provided; or (iii) during the period of the close-out of this Contract.

ARTICLE VIII - SETTLEMENT OF GOVERNMENT INVESTMENT IN IMPROVEMENTS

1. Definitions. As used in this Article:

(a) The term "improvements" shall mean any and all renovations, alterations, improvements, or additions, including but not limited to all materials, supplies, and other property purchased at the expense of the Government and incorporated into such improvements, made at the expense of the Government to and incorporated as part of the land or buildings of the Contractor on

Cantiague Road in Hicksville, Long Island, New York, designated as Sites A and B, as is more specifically provided in Article II - SITE OF THE WORK, hereof. It is understood and agreed by way of example but not limitation that there will be excluded from the meaning of the term "improvements" any manufacturing equipment, including associated wiring, duct works, controls, etc., which can be severed from the property without necessitating structural repairs (including but not limited to any breaking or repairing of walls or ceilings) to the buildings. All other items incorporated into said land or buildings, except manufacturing equipment and associated wiring, duct works, controls, etc., referred to in the preceding sentence, shall be deemed to be improvements. It is further understood and agreed that upon payment therefor by the Contractor to the Government, as provided in this Article, the Contractor shall have sole and exclusive title as against the Government to all improvements in Sites A and B.

(b) The term "appraised value in place" shall mean the value of the improvements in their existing condition, as determined by the appraiser(s), as of the date of the appraisal.

(c) The term "appraised net salvage value" shall mean the estimated salvage value, as determined by the appraiser(s), of the improvements less the estimated costs, as determined by the appraiser(s), of (i) the removal of such improvements, and (ii) the restoration of the Contractor's land and buildings at Sites A and B to substantially the same condition, except for reasonable wear and tear, existing immediately prior to the incorporation therein of such improvements.

2. Upon termination or expiration of this Agreement, the appraised value in place and the appraised net salvage value of the improvements shall be determined by a person or persons mutually acceptable to the Government and the Contractor. Promptly following receipt of such appraisals, the Contractor shall in good faith negotiate with and pay to the Government an amount equal to the mutually agreed value of such improvements. The mutually agreed value shall be determined after giving full consideration to the appraised value in place and the current value to the Contractor of such improvements. In no event shall the mutually agreed value be less than the appraised net salvage value of any improvement. Failure to agree upon either an acceptable appraiser(s) or the mutually agreed value pursuant to the foregoing provision of this Article shall be considered a dispute to be settled in accordance with the General Provision of this Contract entitled DISPUTES.

ARTICLE IX - PATENTS

1. Whenever any invention or discovery is made or conceived by the Contractor or its employees in the course of, in connection with, or under the terms of this Agreement, the Contractor shall furnish the Commission with complete

ARTICLE VIII - SETTLEMENT OF GOVERNMENT INVESTMENT IN IMPROVEMENTS

1. Definitions. As used in this Article:

(a) The term "improvements" shall mean any and all renovations, alterations, improvements, or additions, including but not limited to all materials, supplies, and other property purchased at the expense of the Government and incorporated into such improvements, made at the expense of the Government to and incorporated as part of the land or buildings of the Contractor on Cantiague Road, in Hicksville, Long Island, New York, designated as Sites A and B, as is more specifically provided in Article II - SITE OF THE WORK, hereof. It is understood and agreed by way of example but not limitation that there will be excluded from the meaning of the term "improvements" any manufacturing equipment, including associated wiring, duct works, controls, etc., which can be severed from the property without necessitating structural repairs (including but not limited to any breaking or repairing of walls or ceilings) to the buildings. All other items incorporated into said land or buildings, except manufacturing equipment and associated wiring, duct works, controls, etc., referred to in the preceding sentence, shall be deemed to be improvements. It is further understood and agreed that upon payment therefor by the Contractor to the Government, as provided in this Article, the Contractor shall have sole and exclusive title as against the Government to all improvements in Sites A and B.

(b) The term "appraised value in place" shall mean the value of the improvements in their existing condition, as determined by the appraiser (s), as of the date of the appraisal.

(c) The term "appraised net salvage value" shall mean the estimated salvage value, as determined by the appraiser(s), of the improvements less the estimated costs, as determined by the appraiser(s), of (i) the removal of such improvements, and (ii) the restoration of the Contractor's land and buildings at Sites A and B to substantially the same condition, except for reasonable wear and tear, existing immediately prior to the incorporation therein of such improvements.

2. Upon termination or expiration of this Agreement, the appraised value in place and the appraised net salvage value of the improvements shall be determined by a person or persons mutually acceptable to the Government and the Contractor. Promptly following receipt of such appraisals, the Contractor shall in good faith negotiate with and pay to the Government an amount equal to the mutually agreed value of such improvements. The mutually agreed value shall be determined after giving full consideration to the appraised value in place and the current value to the Contractor of such improvements, In no event shall the mutually agreed value be less than the appraised net salvage value of any improvement. Failure to agree upon either an acceptable appraiser(s) or the mutually agreed value pursuant to the foregoing provision of this Article shall be considered a dispute to be settled in accordance with the General Provision of this Contract entitled DISPUTES.

A

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 REVISED DECEMBER 1, 1961,
 UNDER MODIFICATION NO. 30

CLASSIFICATION REVIEW	
Review Date: <u>4/28/62</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> AUC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>Rh Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/62</u>	
Authority: <u>ADD</u>	<u>3. Classification Cancelled</u>
Name: <u>[Signature]</u>	4. Other: <u>EO-NMP 2</u>

This document consists of 2 pages.
 No. of copies: 2 Series
 SR-A-126

As provided for in paragraph 1 of Article I of Modification 29 of Contract AT(30-1)-1293, this Appendix "B" describes the scope of work to be performed by the Contractor for the period October 1, 1961, through March 31, 1962.

1. Mark VII-A - Mark V-B (Inner-Fuel)

- a. The Contractor shall manufacture and furnish to the Commission Mark VII-A and Mark V-B slugs at monthly tonnage rates as follows:

<u>PERIOD</u>	<u>MARK VII-A</u>	<u>MARK V-B</u> (Integral Rib)
October	80	8
November	80	8
December	80	8
January	80	10
February	105	10
March	105	10

b. Mark V-B (Inner Ribless)

- (1) The Contractor shall manufacture and furnish to the Commission a total of 680 irradiated quality Mark V-B inner ribless pieces in accordance with the following:

October, 1961 - 220 pieces
 November, 1961 - 220 pieces
 December, 1961 - 240 pieces

- (2) As part of the Mark V-B production tonnages established under 1. (a) above, the Contractor shall manufacture and furnish to the Commission Mark V-B ribless inner fuel pieces in accordance with the following schedule:

<u>DATE REQUIRED</u>	<u>NO. OF RIBLESS PIECES REQUIRED</u>	
	<u>FOR WASHER</u> (SSK4-3-222)	<u>FOR RIBBED OF</u> (SSK4-3-225)
February 1, 1962	1500	
March 1, 1962		

cf. HA 10A destroyed
 7/27/65

2. Mark V-B (Outer-Fuel)

The Contractor shall maintain its Mark V-B outer-fuel element facilities in ready standby which shall include such minimum token operation as required to maintain capability. It is understood that minimum token operation will not exceed an average production of approximately 100 pieces per month.

3. Thorium

The Contractor shall conduct a thorium program, using its best efforts, toward the manufacture and canning of 1,320 thorium slugs (560 physics test pieces and 760 reactor acceptable) approximately 6.5 inches long and of the Mark VII-A cross section. The program shall include the preparation of specifications and operating procedures for canning thorium elements and the preparation of the core materials including all necessary research, development, machining, canning, and data accumulation.

4. Program Development

The Contractor shall conduct the following process improvement and development programs:

a. Mark V-B Element Development

The Contractor shall conduct a Mark V-B fuel element development program for the purposes of achieving costs savings in the manufacture of Mark V-B elements. The program shall include necessary tooling and equipment to produce Mark V-B elements using new techniques, variations of fin and finless pieces and necessary development to assure that new elements meet required specifications.

b. Nondestructive Testing

In connection with the above programs, the Contractor shall conduct a development and testing program on nondestructive testing equipment. The program shall include development of a process and equipment capable of properly determining and classifying grain size, developments to determine sub-surface nickel eutectic by either eddy current or ultrasonics, and the development of techniques necessary to prove out nondestructive testing equipment.

5. Du Pont Tooling

The Contractor shall perform work in connection with the Du Pont Tooling Program as authorized by the Contracting Officer in accordance with the Commission's letter to the Contractor of April 4, 1961, attached hereto as Exhibit I.

[REDACTED]

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED DECEMBER 1, 1961
UNDER MODIFICATION NO. 30

B

On or before March 31, 1962, the Commission shall notify the Contractor in writing of the scope of work to be performed by the Contractor during the period April 1, 1962, through September 30, 1962. The amount of fixed fee for such scope of work shall be mutually agreed upon, and failure to agree thereon shall be deemed to be a dispute as to a question of fact and shall be determined in accordance with the General Provision of this Agreement entitled DISPUTES.

~~SECRET~~

UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

TO : R. C. Blair
 Manager

FROM : *[Signature]*
 James S. Hopkins, Director
 Administrative Division

DATE: January 10, 1962

Document No. SR-A-124
 This document consists of 2 pages
 No. 1 of 5 copies, Series A

SUBJECT: AT(30-1)-1293 -- Sylvania Electric Products Inc.

AC:RAMcF:ac

DEPARTMENT OF ENERGY SAVANNAH RIVER FACILITIES, ATOM REVIEW
 Determination (Circle Number)
 1. Classification Unchanged
 2. Classification changed to:
 3. Classification Canceled.
 4. Other: *CE-WN/P.2* 9-49

1st Review Date *4/10/63*
 Authority: *D, ADC, U, ADD*
 Name: *Challenger*
 2nd Review Date *4/10/63*
 Authority: *ADD*
 Name: *Shover, J. Denton*

Your signature on the attached letter to Mr. Metz of Sylcor is recommended. The letter (1) establishes production levels for the Mark V-B and Mark VII-A programs for the period December 1961 through March 1962, (2) confirms prior requests to Sylcor to produce at indicated levels, and (3) requests estimated cost and fixed fee proposal for the scope of work changes.

BACKGROUND

Modification No. 29 establishes production levels for the Mark VII-A and V-B programs and outlines research and development programs to be followed. Commission letter of November 20 requested Sylcor to submit a revised proposal based on tonnages as follows:

Mark VII-A	January through March	50 tons
Mark V-B	November through March	10 tons

Sylcor submitted a revised cost estimate and fee proposal covering the period December 1, 1961, through March 31, 1962. Since the Mark VII-A program was subject to further change, no action was taken on Sylcor's proposal and by Commission teletype of December 15, Sylcor was authorized to produce VII-A slugs at the December rate for the month of January (80 tons). No formal authorization was given Sylcor with respect to the V-B production. By letter dated December 18, Sylcor submitted a revised proposal for Mark VII-A production for the month of January 1962 at a level of 80 tons. No formal action has been taken on the December 18 proposal. Since the production levels for the Mark VII-A and V-B programs have now been established through March 1962, Sylcor is being requested to furnish us a revised proposal covering the period December 1961 through March 1962 at the following production levels:

	<u>Mark V-B</u>	<u>Mark VII-A</u>
December	10	80
January	10	80
February	10	105
March	10	105

~~SECRET~~

~~SECRET~~

UNCLASSIFIED *AT (30-1), 1293*

~~SECRET~~

~~SECRET~~

R. C. Blair

- 2 -

January 10, 1962

Sylcor's January 2 letter pertains to the development program (2913-170--element development DCF1189-CH) and defines the intended scope of work to be pursued. They plan to engage in a program whereby rejected canned Mark V-B Inner Fuel elements will be stripped of their cladding and recanned. The funds previously approved for the project through March 1962 are sufficient to cover the recovery work.

Attachment:
As stated

Distribution:
1A - Contracts
2A - B&F Division
3A - Office of Chief Counsel
4A - T&P Division
5A - Admin. Div. Rdg. File

~~SECRET~~

USDOE 017481

A

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office
FINDINGS AND DETERMINATION

AUTHORIZATION FOR MODIFICATION OF COST-PLUS-FIXED-FEE CONTRACT

SYLCOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.
Contract No. AT(30-1)-1293
Modification No. 29

The Atomic Energy Commission proposes to modify its cost-plus-fixed-fee contract with Sylcor Division, Sylvania Electric Products Inc., to extend the term of the contract through September 30, 1962, define the scope of work to be performed during the period October 1, 1961, through March 31, 1962, and to consolidate into one document the applicable contractual provisions. The work programs to be performed are incorporated into proposed Modification No. 29 to the Contract. The total estimated cost for the additional work is \$2,146,300 of which \$101,460 represents fixed fee.

I hereby find that a modification to the cost-plus-fixed-fee type contract is necessary for the following reasons:

1. Specifications for the production of metal units are not sufficiently definitive to permit entering an immediate unit-price arrangement.
2. Program requirements are subject to immediate change.
3. Continuous process development is required.
4. During the past ten years Sylcor Division has operated its Hicksville Plant under a cost-plus-fixed-fee type contract with the Commission for the primary performance of canning uranium slugs for the Savannah River Plant reactor use. Sylcor Division has successfully performed the work required by the Commission and is considered best qualified to perform the additional work required by this modification, since it is essentially a continuation of programs previously performed.
5. The estimated costs under this modification are considered to be reasonable.
6. The proposed fixed fee of \$101,460 averages six per cent (6%) of the estimated cost fee base and is considered fair. The fee was arrived at as the result of negotiations between the parties and is within the AEC fee curve limits.

Upon the basis of the findings set forth above, I hereby determine that it is impracticable to secure services of the kind and quality desired without the use of a cost-plus-fixed-fee Supplemental Agreement, and I hereby authorize the use of said Supplemental Agreement.

By: *R. C. Egan*
R. C. Egan, Manager
Title: Savannah River Operations Office
Date: JAN 10 1962

AT(30-1)
SROO Response

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Contract - AT-30-1-1293

Slpa

Modification No. 29
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS, INC.

CONTRACTOR Sylvania Electric Products, Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO Amend the scope of work, extend the contract period through September 30, 1962, revise estimated cost and fixed fee, and completely restate the terms and conditions in one document.

EFFECTIVE DATE October 1, 1961

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

(u)

	<u>SROO</u>	<u>NYOO</u>	<u>TOTAL</u>
Previous Direct Cost (Modification No. 28)	\$15,944,989	\$3,951,805	\$19,896,794
This Modification (Net Increase)	<u>1,761,056</u>	<u>-0-</u>	<u>1,761,056</u>
New Total Direct Cost	\$17,706,045	\$3,951,805	\$21,657,850
Previous Fixed Fee (Modification No. 28)	\$ 918,489	\$ 172,150	\$ 1,090,639
This Modification (Net Increase)	<u>101,460</u>	<u>-0-</u>	<u>101,460</u>
New Total Fixed Fee	\$ 1,019,949	\$ 172,150	\$ 1,192,099
New Total Estimated Cost Through March 31, 1962	<u>\$18,725,994</u>	<u>\$4,123,955</u>	<u>\$22,849,949</u>
Total Amount Obligated As of October 1, 1961	<u>\$18,725,994</u>	<u>\$4,123,955</u>	<u>\$22,849,949</u>

WSRC DECLASSIFICATION REVIEW

1st Review Date: 4/28/04
Authority: ADC ADD
Name: R. Collins
2nd Review Date: 4/29/04
Authority: ADD
Name: [Signature]

Determination (Circle one)
1. Classification Unclassified
2. Classification Changed To:
3. Classification Cancelled
4. Other: [Handwritten]

FREE COPY

Modification No. 29
Supplemental Agreement to Contract No. AT(30-1)-1293
with
PENNSYLVANIA ELECTRIC PRODUCTS INC.

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Modification No. 29
Supplemental Agreement to
Contract No. AT(30-1)-1293

THIS SUPPLEMENTAL AGREEMENT, entered into this 11th day of January, 1962, effective 12:01 a.m. October 1, 1961, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor").

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Government and the Contractor entered into Contract No. AT(30-1)-1293 for the performance by the Contractor of certain work for the Government involving the use and occupancy of the land and buildings of the Contractor on Cantiague Road in Hicksville, Long Island, New York and

WHEREAS, said Contract has heretofore been amended from time to time and the parties hereto desire to further amend said Contract and to consolidate into one document all of said amendments which may be applicable to work to be performed by the Contractor after the date of this amendment; and

WHEREAS, the parties desire to modify said Contract as heretofore modified to provide for the performance by the Contractor of an additional scope of work as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, Contract AT(30-1)-1293, as heretofore amended, is hereby modified to read as follows:

(a) On and after the effective date hereof, all rights, duties and activities of the parties with respect to the work hereinafter described shall be governed by the provisions of this Agreement;

(b) The rights and obligations of the parties which have been incurred, or which have accrued or matured under the provisions of the Contract as amended prior to the effective date of this Agreement, shall in no wise be impaired, limited, enlarged or affected by reasons of provisions hereof except to the extent that any specific provision of this Agreement is expressly stated to be retroactive in its application.

ARTICLE I - SCOPE OF THE WORK

1. Beginning October 1, 1961, the Contractor shall proceed with the machining manufacture, canning, testing, inspection, and delivery of metal and alloy slugs to the Commission and perform other services as required by the Commission, all in accordance with the classified Appendix "B" to this Agreement.

2. (a) The work to be provided for in paragraph 1 above is under the jurisdiction of the Commission's Savannah River Operations Office. This paragraph 2 is concerned only with such other cost-type work (if any) to be performed at Site A (as defined in Article II below), whether or not of the same type or character as provided in paragraph 1 above, as may be agreed to by the Contractor and the Commission or by the Contractor and the Sponsor (defined as a cost-type Contractor of the Commission) with the written approval of the Commission, by execution of the document provided for in Appendix "C" attached hereto and made a part hereof. Except to the extent otherwise specifically provided for in this Agreement, including the documents provided for in Appendix "C", all provisions of this Agreement shall be applicable with respect to work under this paragraph 2.
- (b) Except as otherwise authorized by the Commission, it is understood that the Commission or Sponsor Agreements referred to in this paragraph 2 are the only vehicles whereby the Contractor may perform work as provided in subparagraph (a) above at Site A.
- (c) Prior to formal initiation of each Appendix "C" agreement with the Sponsor or Commission office, as hereinabove provided, the Contractor shall notify the Commission's Savannah River Operations Office in writing of the scope of work and terms of the intended Agreement.
3. The Contractor shall furnish all materials, equipment, facilities, and premises, and all other properties and services requisite to the proper performance of work under this Agreement and shall be reimbursed therefor in accordance with this Agreement, except to the extent that the Government, or, in the case of an Appendix "C" agreement, the Sponsor, or the Commission may elect or may otherwise be expressly obligated to furnish such properties or services.

ARTICLE II - SITE OF THE WORK

1. Principal Site. Unless the Commission approves a substitute site in writing and until the date approved by the Commission for such substitution, the principal site for the work under this Agreement shall be referred to as Site A and shall be the land and buildings of the Contractor on Cantiague Road, Hicksville, Long Island, New York, described in the attached drawings marked Appendix "D", revised October 1, 1961, excluding therefrom the space identified in said Appendix "D" and designated as Site B, Site B to include also reasonable rights of ingress and egress.
2. Alteration at Site A. The Contractor shall alter the plant and other facilities at Site A to the extent that the Commission considers such alteration necessary to the proper performance of the work.

3. Transfer of Site. The Contractor agrees not to sell, lease, license, or otherwise transfer ownership or occupancy of any part of its land, buildings, or facilities on (1) Site A, or (2) the areas, together with buildings or facilities thereon, marked in red crosshatch in Appendix "D" of this Agreement without expressly making such sale, lease, license, or other transfer subject to the provisions of subparagraph (d) of paragraph 2. of Article III - TERM, EXPIRATION AND TERMINATION, of this Agreement. The Contractor further agrees that in the event it sells, leases, licenses, or otherwise transfers ownership, occupancy, or possession of any part of its land, buildings, or facilities referred to in this paragraph, it will hold the Government harmless from any and all damage that may result to the Government from such sale, lease, license, or transfer.
4. Non-Contract Activities. The Contractor shall not engage in or permit others to engage in activities at Site A other than activities in the performance of work under this Agreement without the approval of the Commission.

ARTICLE III - TERM, EXPIRATION AND TERMINATION

1. Term. Subject to the provisions of this Article, the period of performance of the work under this Agreement shall end on September 30, 1962; provided however, that the Government, in its sole discretion, shall have the unilateral right from time to time to extend the period of performance under this Agreement for a consecutive period or periods through September 30, 1964, upon written notice or notices to the Contractor of its intention to extend the Contract for such period or periods. Each such written notice shall identify to the Contractor the scope of work to be performed by the Contractor during the period in which the Contract is to be extended. The amount of fixed fee for each Contract extension shall be mutually agreed upon, and failure to agree thereon shall be deemed to be a dispute as to a question of fact and shall be determined in accordance with the General Provision entitled DISPUTES, hereof. The rights and remedies of the Government for any failure of the Contractor, for reasons beyond its control and which did not result from any act(s) or omission(s) on its part, to agree to any extension of the period or periods of performance provided for in this paragraph shall be limited to the provisions of subparagraph (d) of paragraph 2. of Article III - TERM, EXPIRATION AND TERMINATION.
2. Termination.
 - (a) For Default. The performance of the work under paragraph 1 of Article I and under any or all of the agreements under paragraph 2 of Article I may be terminated by the Commission in whole or in part by reason of the breach by the Contractor of any of the provisions of this Agreement. The performance of the work under any Sponsor Agreement may

be terminated by the Sponsor in whole or in part by reason of the breach by the Contractor in regard to said work of any of the provisions of this Agreement. Where both reasonable and practicable, in the light of the nature of the breach and its effect on the other party, the Commission, or the Sponsor in the case of a Sponsor Agreement, will give the Contractor written notice of the breach and of its intent to terminate by reasons thereof and the opportunity to cure the default promptly.

(b) For the Convenience of the Government. The performance of the work under Article I of this Agreement or any part of said work may be terminated by the Commission for the convenience of the Government. The performance of the work under any Sponsor Agreement may be terminated by the Sponsor with the approval of the Commission for the convenience of the Government.

(c) Notice of Termination. Termination, under this paragraph, shall be effected by delivery to the Contractor of a written notice of termination, which notice (i) shall specify a date upon which said termination shall become effective, which date shall be at least sixty (60) days after the delivery of said notice; (ii) in the event of a termination in part, shall specify the portion or portions of the work so terminated and the period or periods during which said termination shall be effective; and (iii) shall specify whether said termination is for the default of the Contractor or for the convenience of the Government. Upon receipt of said notice of termination, the Contractor promptly, except as the notice may direct otherwise, shall (i) discontinue all terminated work as soon as is reasonably practicable, if the notice so directs, and in any event by the date specified in said notice of termination; (ii) cease all placing of orders for property or services in connection with the performance of the terminated work; (iii) proceed to the best of its ability to terminate all orders and subcontracts to the extent that they relate to the terminated work; (iv) assign to the Government, in the manner and to the extent directed by the Commission, all the right, title and interest of the Contractor under the terminated portion of the orders and subcontracts so terminated; (v) settle, with the approval of the Commission, or the Sponsor in the case of a Sponsor Agreement, all subcontracts, obligations, commitments and claims related to the terminated work, the cost of which would be allowable in accordance with the provisions of this Agreement; (vi) continue performance of such part of the Agreement work, if any, as shall not have been terminated; and (vii) take such other action with respect to the terminated work as may be required under other articles of this Agreement and, subject to the approval of the Commission, as may be otherwise appropriate including but not limited to action for the protection and preservation of Government property.

(d) Entry by Government After Default.

(i) If, prior to September 30, 1964, performance of all of the work under this Agreement is terminated for the default of the Contractor or the Contractor refuses to agree to any extension of

the period of performance as provided in paragraph 1. of Article III - TERM, EXPIRATION AND TERMINATION, the Government may enter upon and occupy Site A exclusively for such period of time as it may deem desirable from a time no later than thirty (30) days after the date of such default or after the date of expiration following such refusal through September 30, 1964, but not after September 30, 1964, by paying to the Contractor, for each month of such occupancy of Site A, a monthly charge in full satisfaction of all claims of the Contractor against the Government arising out of said entry, including the Contractor's loss of use of said facilities, except as otherwise provided in paragraph 1. of Article XIX - INDEMNITY, and the fair rental value of said premises and facilities but excluding all other claims arising out of the Government's use and occupancy of said premises and facilities. Said monthly charge shall be 1/12 of the actual annual costs and expenses attributable to Site A, including but not limited to such items as taxes, insurance except workmen's compensation insurance, and such other costs as may be approved by the Commission.

- (ii) After termination for the default of the Contractor and the exercise of the right conferred upon the Government to occupy the premises, as provided in (i) above, the Government may (a) enter upon and have exclusive occupancy of Site A; (b) take possession of all Government property in Site A and, for the period of said occupancy, take possession of all materials, tools, machinery, and appliances in Site A which may be owned by or in possession of the Contractor and used solely in connection with the work under this Agreement; (c) exercise during said occupancy, in its own name and for its own account, all options, privileges and rights belonging to or exercisable by the Contractor in connection with said premises and facilities; and (d) for its own account and for its own use, fabricate, process, and complete, or employ others to fabricate, process, or complete, therein research and development and production work on fuel elements.
- (iii) In addition, the Commission shall, within the limits of its authority, indemnify and hold the Contractor harmless against any damages finally awarded by a court, agency, or board of competent jurisdiction, or settlements made with the consent of the Commission, and against reasonably necessary expenses incident to any action before such court, agency, or board, or to settlement, where such awards and settlements are based on claims by third parties against the Contractor arising out of the Government's use and occupancy of said premises or facilities, or the exercise by the Government of any of the rights or privileges belonging to the Contractor pursuant to this subparagraph. Moreover, except as provided in subparagraph (i) above, and except for reasonable wear and tear to such property, the Commission shall also, within the limits of its authority, indemnify and hold the Contractor harmless against physical damage to or physical loss of the Contractor's own property which may arise out of the Government's use and occupancy of said premises and facilities.

(e) Terms of Settlement. Upon a termination of all or part of the work under this Agreement, full and complete settlement of all claims of the Contractor with respect to the work of this Agreement so terminated shall be made as follows:

- (i) Assumption of Contractor's Obligations. The Government may, at the discretion of the Commission, assume and become liable for all obligations, commitments, and claims that the Contractor may have theretofore in good faith undertaken or incurred in connection with the terminated work, the cost of which would be allowable in accordance with the provisions of this Agreement; and the Contractor shall, as a condition of receiving the payments mentioned in this Article, execute and deliver all such papers and take all such steps as the Commission may require for the purpose of fully vesting in the Government all the rights and benefits of the Contractor under such obligations or commitments.
- (ii) Payment for Allowable Costs. The Government, or the Sponsor in the case of a Sponsor Agreement, shall reimburse the Contractor or allow credit for all allowable costs incurred in the performance of the terminated work and not previously reimbursed or otherwise discharged.
- (iii) Payment for Close-Out Expense. The Government, or the Sponsor in the case of a Sponsor Agreement, shall reimburse the Contractor (a) for such close-out expenses, (b) for such further expenditures as are made after the date of termination for the protection of the Government property, and (c) for such legal and accounting services in connection with settlement, as are required or approved by the Commission, or the Sponsor in the case of a Sponsor Agreement.
- (iv) Payment on Account of Fixed Fees.
 - (a) If the performance of the work under paragraph 1 of Article I or any Appendix "C" Agreement under paragraph 2 of said Article of this Agreement is terminated in whole for the default of the Contractor, no further payment shall be made of fixed fee for any uncompleted part of the work under such paragraph, nor shall any further part of the 10% of the fixed fee for the work under such paragraph, withheld in accordance with Article VI, be paid; provided, however, that the Contractor shall be paid with respect to the terminated work under such paragraph 90% of a sum determined by applying a percentage to the total fee applicable to such work, such percentage to be determined by dividing the amount of work completed under such paragraph (including without limitation preparation and development work thereunder after October 1, 1961) by the total amount of work provided for under such paragraph; provided further that the Contractor shall refund to the Commission,

or Sponsor if applicable, any fixed fee received for work under such paragraph which is in excess of the amount determined under the preceding formula.

(b) If the performance of the work under this Agreement is terminated in whole for the convenience of the Government, the Contractor shall be paid that portion of the fixed fee applicable to the work under paragraph 1 of Article I and to each Appendix "C" Agreement under paragraph 2 of said Article, respectively, which the work actually completed under each such paragraph and Agreement, respectively, as determined by the Commission, bears to the entire work under each such paragraph and Agreement, respectively, less payments previously made on account of each such applicable fixed fee.

(c) If the performance of the work under paragraph 1 of Article I of this Agreement or under any Appendix "C" Agreement under paragraph 2 of Article I of this Agreement, is terminated in part for the convenience of the Government, the Contractor and the Commission, or the Sponsor if applicable, shall promptly negotiate and agree upon an equitable adjustment of the fixed fee applicable to the terminated portion of the work, and the agreement reached shall be evidenced by a written executed supplemental agreement to this Agreement or the appropriate Appendix "C" Agreement, if applicable. If the Contractor and the Commission, or the Sponsor if applicable, fail to so agree upon such fee adjustment within a reasonable time after such partial termination, failure to agree shall be disposed of in accordance with the General Provision entitled DISPUTES, hereof.

3. Expiration. In the event of expiration of the period of work performance hereunder without prior termination hereof, the Contractor shall (i) discontinue the agreement work under this Agreement at the end of the day of expiration and (ii) take such other action as may be required under other provisions of this Agreement and subject to the approval or ratification of the Commission, as may be otherwise appropriate, including but not limited to action for the protection and preservation of Government property.
4. Claims in Favor of the Government. The obligation of the Government to make any of the payments required by this Article shall be subject to any unsettled claims in connection with this Agreement which the Government may have against the Contractor. Nothing contained in this Article shall be construed to limit or affect any other remedies which the Government may have as a result of a default by the Contractor.
5. Settlement upon Termination or Expiration. Any other provisions of this Agreement to the contrary notwithstanding, the Contractor and the Commission, or the Sponsor if applicable, may agree upon the whole or any part of the

amount or amounts which the Contractor is to receive upon and in connection with (i) any termination pursuant to this Article or (ii) expiration of the term of this Contract without prior termination thereof. Any agreement so reached shall be evidenced by a written supplemental agreement to this Contract, or Appendix "C" Agreement if applicable, which shall be final and binding upon the parties with regard to their respective claims against each other except as therein otherwise expressly provided.

ARTICLE IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE

1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$ 21,657,850 exclusive of the Contractor's fixed fee. The Contractor's fixed fee, as set forth in paragraph 2, Article V of this Contract, is \$ 1,192,099. The estimated cost of the work, as described in paragraph 1 of the Article entitled SCOPE OF THE WORK, for the period October 1, 1961, to March 31, 1962, is \$ 2,044,840, exclusive of the Contractor's fixed fee of \$ 101,460.
2. Obligation of Funds. The amount presently obligated by the Government with respect to this Contract is \$ 22,849,949. The amount of obligation under this Contract may be increased unilaterally by the Commission by written notice to the Contractor and may be decreased by written agreement of the parties (whether or not by formal modification of this Contract).
3. Revised Estimate of Cost and Fixed Fee. The presently estimated cost of the work and fixed fee under this Contract may be increased or decreased by written agreement of the parties (whether or not by formal modification of this Contract) and such revised estimate plus the fixed fee shall be deemed substituted in paragraph 1, above.
4. Limitation of Obligation. Payments on account of costs shall not in the aggregate at any time exceed the amount of funds presently obligated hereunder less the Contractor's fixed fee.
5. Notice of Costs Approaching Funds Obligated--Contractor Excused Pending Increase When Obligation is Reached. Whenever the Contractor has reason to believe that the total cost of the work under this Contract (exclusive of the Contractor's fixed fee) will be substantially greater or less than the presently estimated cost of the work the Contractor shall promptly notify the Contracting Officer in writing. The Contractor shall also notify the Contracting Officer in writing when the aggregate of expenditures and outstanding commitments allowable under this Contract, including the Contractor's fixed fee, is equal to ninety per cent (90%) (or such other percentage as the Contracting Officer may from time to time establish by notice to the Contractor) of the amount of funds presently obligated hereunder. When such expenditures and outstanding commitments, including the Contractor's fixed fee, equal one hundred per cent (100%) of such amount the Contractor shall make no further commitments or expenditures (except to meet existing commitments) and shall be excused from further performance of the work unless and until the Contracting Officer thereafter shall increase the funds obligated with respect to this Contract.

6. Government's Right to Terminate Not Affected. The giving of any notice by either party under this Article shall not be construed to waive or impair any right of the Government to terminate the Contract under the provisions of the Article entitled TERM, EXPIRATION AND TERMINATION.
7. Cost Information. The Contractor shall maintain current cost information adequate to reflect the cost of performing the work under this Contract at all times while the work is in progress, and shall prepare and furnish to the Government such written estimates of cost and information in support thereof as the Contracting Officer may request.
8. Correctness of Estimates Not Guaranteed. Neither the Government nor the Contractor guarantees the correctness of any estimate of cost for performance of the work under this Contract, and there shall be no adjustment in the amount of the Contractor's fixed fee by reason of errors in the computation of estimates or differences between such estimates and the actual cost for performance of the work.
9. Appendix "C" Obligation. The foregoing provisions of this Article establishing estimates and obligating funds do not include any work added under paragraph 2 of Article I. In connection with any agreement adding work under paragraph 2 of Article I, the Commission, in the case of a Commission Agreement, and the Sponsor in case of a Sponsor Agreement, will obligate (if the Commission) or allocate (if the Sponsor) in regard to the work provided for in said Agreement the sum therein specified. However, the provisions of paragraph 1 through 8 of this Article shall be otherwise applicable to all Appendix "C" Agreements except that in the case of Sponsor Agreements, the word "Sponsor" shall apply wherever the word "Commission" appears.

ARTICLE V - ALLOWABLE COSTS AND FIXED FEE

1. Compensation for Contractor's Services. Payment for the allowable cost as hereinafter defined, and of the fixed fee, if any, as hereinafter provided shall constitute full and complete compensation for the performance of the work under this Contract.
2. Fixed Fee.
 - (a) The fixed fee payable to the Contractor for the performance of the work under this Contract prior to October 1, 1961, is \$1,090,639.
 - (b) The fixed fee applicable to the work performed during the period October 1, 1961, through March 31, 1962, is \$101,460.
3. Allowable Cost. The allowable cost of performing the work under this Contract shall be the costs and expenses (less applicable income and other credits) that are actually incurred by the Contractor, are applicable and properly chargeable, either as directly incident or as

allocable through appropriate distribution or apportionment, to the performance of the contract work in accordance with its terms and are determined to be allowable pursuant to this paragraph 3. The determination of the allowableness of cost hereunder shall be based on:

- (1) reasonableness, including the exercise of prudent business judgment,
- (2) consistent application of generally accepted accounting principles and practices that result in equitable charges to the contract work, and
- (3) recognition of all exclusions and limitations set forth in this Article or elsewhere in this Contract as to types or amounts of items of cost. Allowable cost shall not include cost of any item described as "unallowable" in paragraph 5 of this Article, except as indicated therein. Failure to mention an item of cost specifically in paragraph 4 or 5 shall not imply either that it is allowable or that it is unallowable.

4. Items of Allowable Cost. Subject to the other provisions of this Article, the following items of cost of work under this Contract shall be allowable to the extent indicated:

(a) Bonds and Insurance (including self-insurance) as provided in the General Provision entitled REQUIRED BONDS AND INSURANCE.

(b) Communication Costs including telephone services, local and long distance telephone calls, telegrams, cablegrams, radiograms, postage and similar items.

(c) Consulting Services, (including legal and accounting) and related expenses, as provided in the Article entitled TECHNICAL AND PROFESSIONAL ASSISTANCE and to the extent approved by the Contracting Officer.

(d) Litigation Expenses, including reasonable counsel fees, incurred in accordance with the General Provision of this Contract entitled LITIGATION AND CLAIMS.

(e) Losses and Expenses (including settlements made with the consent of the Contracting Officer) sustained by the Contractor in the performance of this Contract and certified in writing by the Contracting Officer to be just and reasonable, except the losses and expenses expressly made unallowable under other provisions of this Contract.

(f) Materials and Supplies (including those withdrawn from common stores costed in accordance with any generally recognized method that is consistently applied by the Contractor and productive of equitable results).

(g) Patents, Purchased Design, and Royalty Payments to the extent expressly provided for under other provisions in this Contract or as approved by the Contracting Officer; and preparation of invention disclosures, reports and related documents, and searching the art to the extent necessary to make such invention disclosures in accordance with the Patent Article of this Contract.

(h) Personnel Costs and Related Expenses incurred in accordance with Appendix A, or amendments thereto, such as:

(i) salaries and wages; overtime, shift differential, holiday and other premium pay for time worked; non-work time including vacations, holidays, sick, funeral, military, jury, witness, and voting leave; salaries and wages to employees in their capacity as union stewards and committeemen for time spent in handling grievances, negotiating agreements with the Contractor, or serving on labor-management (contractor) committees; bonuses and incentive compensation subject to the approval of the Contracting Officer if charged directly;

(ii) legally required contributions to old age and survivors' insurance, unemployment compensation plans and workmen's compensation plans (whether or not covered by insurance); voluntary or agreed upon plans providing benefits for retirement, separation, life insurance, hospitalization, medical-surgical and unemployment (whether or not such plans are covered by insurance);

(iii) travel (except foreign travel which requires specific approval by the Contracting Officer on a case by case basis); incidental subsistence and other allowances of Contractor employees, in connection with performance of work under this Contract (including new employees reporting for work and transfer of employees, the transfer of their household goods and effects and the travel and subsistence of their dependents);

(iv) employee relations, welfare, morale, etc., programs, including incentive or suggestion awards, employee counseling services, health or first-aid clinics and house or employee publications;

(v) personnel training (except special education and training courses and research assignments calling for attendance at educational institutions which require specific approval by the Contracting Officer on a case by case basis) including apprenticeship training programs designed to improve efficiency and productivity of contract operations, to develop needed skills and to develop scientific and technical personnel in specialized fields required in the contract work;

(vi) recruitment of personnel (including help-wanted advertisement) including services of employment agencies at rates not in excess of standard commercial rates, employment office, travel of prospective employees at the request of the Contractor for employment interviews; at

(vii) net cost of operating plant-site cafeterias, dining rooms and canteens attributable to the performance of the Contract.

Appendix A may be modified from time to time, in writing, without execution of an amendment to this Contract for the purposes of effecting any changes in or additions to Appendix A as may be agreed upon by the parties.

Modification No. 29
Supplemental Agreement to
Contract No. AT(30-1)-1293

- (i) Rentals and Leases of land, buildings and equipment owned by third parties where such items are used in the performance of the Contract except that such rentals and leases directly chargeable to the Contract shall be subject to approval by the Contracting Officer.
- (j) Repairs, Maintenance, Inspection, replacement and disposal of Government-owned property to the extent directed or approved by the Contracting Officer.
- (k) Repairs, Maintenance and Inspection of Contractor-owned property used in connection with the performance of this Contract to the extent provided in the Article entitled CONSTRUCTION, ALTERATION OR REPAIR WORK.
- (l) Special Tooling, including jigs, dies, fixtures, molds, patterns, designs and drawings, tools, and equipment of a specialized nature generally useful to the Contractor only in the performance of this Contract.
- (m) Subcontracts, Purchase Orders and purchases from Contractor controlled sources, subject to approvals required by other provisions of this Contract.
- (n) Subscriptions to trade, business, technical, and professional periodicals, as approved by the Contracting Officer when charged directly to the Contract.
- (o) Taxes, Fees and Charges levied by public agencies which the Contractor is required by law to pay, except those which are expressly made unallowable under other provisions of this Contract.
- (p) Utility Services including electricity, gas, water, steam and sewerage.
- (q) The costs of preparing bids and proposals to the extent approved by the Contracting Officer, but not to exceed 1% of the direct material and direct labor costs of the contract work.
5. Items of Unallowable Costs. The following items of cost are unallowable under this Contract to the extent indicated:
- (a) Advertising, except (i) help-wanted advertising, and (ii) other advertising such as participation in exhibits approved by the Contracting Officer as clearly in furtherance of work performed under the Contract.
- (b) Bad Debts, (including expenses of collection) and provisions for bad debts not arising out of the performance of this Contract.
- (c) Bonuses, and similar compensation under any other name, which (i) are not pursuant to an agreement between the Contractor and employee prior to the rendering of the services or an established plan consistently followed by the Contractor; (ii) are in excess of those costs which are allowable by the Internal Revenue Code and regulations thereunder, or (iii) provide total compensation to an employee in excess of reasonable compensation for the services rendered.

- (d) Commissions, Bonuses and Fees (under whatever name) in connection with obtaining or negotiating for a Government contract or a modification thereto.
- (e) Contingency Reserves, provisions for, (except provisions for reserves under a self-insurance program to the extent that the type, coverage, rates and premiums would be allowable if commercial insurance were purchased to cover the same risk, as approved by the Contracting Officer.)
- (f) Contributions and Donations.
- (g) Depreciation in excess of that calculated by application of methods approved for use by the Internal Revenue Service under the Internal Revenue Code of 1954, as amended, including the straight-line, declining balance (using a rate not exceeding twice the rate which would have been used had the depreciation been computed under the straight-line method), or sum-of-the-years-digits method, on the basis of expected useful life, to the cost of acquisition of the related fixed assets less estimated salvage or residual value at the end of the expected useful life. Amortization or depreciation of unrealized appreciation of values of assets or of assets fully amortized or depreciated on the Contractor's books of account is unallowable.
- (h) Dividend Provisions or Payments and, in the case of sole proprietors and partners, distributions of profit.
- (i) Entertainment Costs, except the costs of such recreational activities for on-site employees as may be approved by the Contracting Officer or provided for elsewhere in this Contract.
- (j) Fines and Penalties, including assessed interest, resulting from violations of, or failure of the Contractor to comply with Federal, State, or local laws or regulations, except when incurred in accordance with written approval of the Contracting Officer or as a result of compliance with the provisions of this Contract.
- (k) Government-Furnished Property, except to the extent that cash payment therefor is required pursuant to procedures of the Commission applicable to transfers of such property to the Contractor from others.
- (l) Insurance (including any provision of a self-insurance reserve) covering business interruption or use and occupancy, insurance on any person where the Contractor under the insurance policy is the beneficiary directly or indirectly, and insurance against loss of or damage to Government property as defined in the Article of this Contract entitled GOVERNMENT PROPERTY.

- (m) Interest, however represented, except interest incurred in compliance with the General Provision entitled STATE AND LOCAL TAXES, bond discounts and expenses, and costs of financing and refinancing operations.
- (n) Legal, Accounting, and Consulting Services, and related costs incurred in connection with the preparation of prospectuses, preparation and issuance of stock rights, organization or reorganization, prosecution or defense of antitrust suits, prosecution of claims against the United States, contesting actions or proposed actions of the United States, and prosecution or defense of patent-infringement litigation.
- (o) Losses (including litigation expenses, counsel fees, and settlements) on, or arising from the sale, exchange, or abandonment of capital assets, including investments; losses on other contracts, including the Contractor's contributed portion under cost-sharing contracts; losses in connection with price reduction to and discount purchases by employees and others from any source; and losses where such losses or expenses--
- (i) are compensated for by insurance or otherwise, or which would have been compensated by insurance required by law or by written direction of the Contracting Officer but which the Contractor failed to procure or maintain through its own fault or negligence, or which could have been covered by permissible insurance in keeping with ordinary business practice but which the Contractor failed to secure or maintain;
 - (ii) result from wilful misconduct or lack of good faith on the part of any of the Contractor's directors, corporate officers, or a supervising representative of the Contractor;
 - (iii) represent liabilities to third persons for which the Contractor has expressly accepted responsibility under other terms of this Contract.
- (p) Maintenance, Depreciation, and Other Costs incidental to the Contractor's idle or excess facilities (including machinery and equipment) other than reasonable standby facilities.
- (q) Membership in trade, business, and professional organizations except as approved by the Contracting Officer.
- (r) Precontract Costs, except as expressly made allowable under other provisions in this Contract.
- (s) Reconversion, Alteration, Restoration, or Rehabilitation of the Contractor's facilities, except as expressly provided elsewhere in this Contract.

(t) Research and Development Costs, unless specifically provided for elsewhere in this Contract.

(u) Selling and Distribution Activities and related expenses not applicable to the performance of this Contract.

(v) Storage of Records pertaining to this Contract after completion of operations under this Contract irrespective of contractual or statutory requirement of the preservation of records.

(w) Taxes, Fees and Charges in connection with financing, refinancing, or refunding operations, including the listing of securities on exchanges; taxes which are paid contrary to the General Provision entitled STATE AND LOCAL TAXES; Federal taxes on net income and excess profits; and special assessments on land which represent capital improvement.

(x) The cost to the Contractor for compliance at Site B with health, safety, and security standards and regulations of the Commission, and the cost incurred with respect to health, safety and security measures at Site A occasioned solely by its proximity to Site B.

6. General and Administrative Expenses. General and administrative expenses to be applied to the Contract will consist of two G&A pools, known as the Sylcor Division (hereinafter referred to as the "Division") G&A and the Home Office G&A.

(a) The Division G&A pool will consist of the Accounting Department, Purchasing Department, Contract Administration, and charges from the data processing center at Camillus, New York, for the cost of machine accounting, payroll, auditing, and communications service. This pool will be allocated on the basis of salaries and wages, as follows:

(i) For each calendar year, the Division G&A expense factor will be the ratio of the total Division G&A expenses to the total Division plant and laboratory salaries and wages (exclusive of overtime premium).

(ii) The Division G&A expense factor, as determined in (i), above, applied to the total plant and laboratory salaries and wages (exclusive of overtime premium) reimbursable for work under this Contract for that period, shall determine the amount of Division G&A expenses reimbursable to the Contractor for such calendar year.

(iii) Monthly payments of Division G&A expense shall be based upon a provisional Division G&A expense factor applied to reimbursable plant and laboratory salaries and wages (exclusive of overtime premium) for the month. The provisional Division G&A expense factor shall be mutually agreed upon by the parties in writing, but without executing a formal amendment to this Contract.

(iv) Annually, as soon after December 31 as practicable, the Contractor shall determine its actual Division G&A expenses reimbursable hereunder, which shall be subject to audit and approval by the Commission.

(v) Based upon the determination made as provided in (iv), above, any excess Division G&A expenses paid to the Contractor under (iii), above, shall be refunded to the Commission and any deficit in such payments shall be paid by the Commission to the Contractor.

(b) The Home Office G&A pool covers expenses incurred by the Central Executive Department made up of the company officers and their staff, legal expense, patent expense to the extent approved by the Contracting Officer, controller's department expense, tax department, purchasing and insurance expense. The details within each group are made up of salaries, fringe benefits, occupancy expense, and the usual administrative type expenditures.

(i) The Home Office G&A rate to be applied during the year represents the relationship between the estimated input base (cost of sales, including labor, materials and overhead, but excluding Divisional G&A) for the company and the estimated allowable portion of the Home Office expense. This rate is a provisional billing rate and is reviewed and approved by the cognizant DOD audit.

(ii) A provisional billing rate of two per cent (2%) for Home Office G&A will be applied to total cost (exclusive of Division G&A expense) during the year 1961.

(iii) Periodically, the DOD audit will check the validity of the provisional billing rate and make any necessary adjustments.

(iv) Upon determination of the actual Home Office G&A rate, as determined by audit and approved by the Commission, the amounts billed on a provisional basis will be adjusted to actual and the difference will be billed or refunded to the Commission, as appropriate.

ARTICLE VI - PAYMENTS

1. Payments on Account of Allowable Costs. Once each month (or at more frequent intervals, if approved by the Contracting Officer) the Contractor may submit to the Contracting Officer, in such form and reasonable detail as he may require, an invoice or voucher supported by a statement of costs incurred by the Contractor in the performance of this Contract and claimed to constitute allowable costs. Promptly after receipt of each invoice or voucher, the Government shall, subject to the provisions of paragraph 3, below, make payment thereon as approved by the Contracting Officer.

2. Payment of Fixed Fee. Ninety per cent (90%) of the fixed fee, if any, shall become due and payable in periodic installments in amounts as shown below and the balance upon completion and acceptance of each scope of work under this Contract; provided, however, that the Contracting Officer may at any time that the amount of the retained fixed fee equals ten per cent (10%) of the total fixed fee or equals one hundred thousand dollars (\$100,000), whichever is less, make payments of any of the remaining periodic installments of the fixed fee in full.
 - (a) Payment of the fixed fee of \$1,090,639 applicable to the cost of the work performed prior to October 1, 1961, shall be made by the Government in accordance with applicable contract provisions in effect prior to October 1, 1961.
 - (b) For the period October 1, 1961, through March 31, 1962, ninety per cent (90%) of the fixed fee of \$101,460 shall become due and payable in monthly installments of \$15,219.
3. Audit Adjustments. At any time or times prior to settlement under this Contract, the Contracting Officer may have invoices or vouchers and statements of cost audited. Each payment theretofore made shall be subject to reduction for amounts included in the related invoice or voucher which are found by the Contracting Officer, on the basis of such audit, not to constitute allowable cost. Any payment may be reduced for over-payments, or increased for under-payments, on preceding invoices or vouchers.
- Review and Approval of Costs. The Contractor shall prepare and submit annually as of June 30, or for other such periods designated by the Contracting Officer, a voucher for the total of net expenditures accrued (i.e., net costs incurred) for the period covered by the voucher, and the Commission after audit and appropriate adjustment will approve such voucher. This approval by the Commission will constitute an acknowledgment by the Commission that the net costs incurred are allowable under the Contract and that they have been recorded in the accounts maintained by the Contractor in accordance with the Commission accounting policies, but will not relieve the Contractor of responsibility for the Commission's assets in its case, for appropriate subsequent adjustments, or for errors later becoming known to the Commission.
5. Completion Voucher. On receipt and approval of the invoice or voucher designated by the Contractor as the "completion invoice" or "completion voucher" and upon compliance by the Contractor with all the provisions of this Contract (including, without limitation, the provisions relating to patents and provisions of paragraph 7 below) the Government shall promptly pay to the Contractor any balance of allowable cost and any part of the fixed fee which has been withheld pursuant to paragraph 2 above or otherwise not paid to the Contractor. The completion invoice or voucher shall be submitted by the Contractor promptly following the completion of the

work under this Contract but in no event later than one (1) year (unless within the year the Contracting Officer grants a further specific period of time) from the date of such completion.

6. Applicable Credits. The Contractor agrees that any refunds, rebates, credits, or other amounts (including any interest thereon) accruing to or received by the Contractor or any assignee under this Contract shall be paid by the Contractor to the Government, to the extent that they are properly allocable to costs for which the Contractor has been reimbursed by the Government under this Contract. Reasonable expenses incurred by the Contractor for the purpose of securing such refunds, rebates, credits, or other amounts shall be allowable costs hereunder when approved by the Contracting Officer.
7. Financial Settlement. Prior to final payment under this Contract, the Contractor and each assignee under this Contract whose assignment is in effect at the time of final payment under this Contract shall execute and deliver:
- (a) an assignment to the Government, in form and substance satisfactory to the Contracting Officer, of refunds, rebates, credits or other amounts (including any interest thereon) properly allocable to costs for which the Contractor has been reimbursed by the Government under this Contract; and
 - (b) a release discharging the Government, its officers, agents, and employees from all liabilities, obligations, and claims arising out of or under this Contract, subject only to the following exceptions:
 - (i) specified claims in stated amounts or in estimated amounts where the amounts are not susceptible of exact statement by the Contractor;
 - (ii) claims, together with reasonable expenses incidental thereto, based upon liabilities of the Contractor to third parties arising out of performance of this Contract; provided that such claims are not known to the Contractor on the date of the execution of the release; and provided further that the Contractor gives notice of such claims in writing to the Contracting Officer not more than six (6) years after the date of the release or the date of any notice to the Contractor that the Government is prepared to make final payment, whichever is earlier; and
 - (iii) claims for reimbursement of costs (other than expenses of the Contractor by reason of any indemnification of the Government against patent liability), including reasonable expenses incidental thereto, incurred by the Contractor under the provisions of this Contract relating to patents.
8. Claims. Claims for payment shall be accompanied by such supporting document and justification as the Contracting Officer shall prescribe.

9. Discounts. The Contractor shall take and afford the Government the advantage of all known and available cash and trade discounts, rebates, allowances, credit, salvage, and commissions unless the Contracting Officer finds that such action is not in the best interest of the Government.
10. Revenues. All revenues other than the Contractor's fixed fee or fees, if any, accruing to the Contractor in connection with the work under this Contract shall be applied in reduction of allowable costs.
11. Direct Payments of Charges - Deductions. The Government reserves the right, upon ten (10) days written notice from the Contracting Officer to the Contractor, to pay directly to the persons concerned, all amounts due which otherwise would be allowable under this Contract. Any payment so made shall discharge the Government of all liability to the Contractor therefor.
12. Payments Under Appendix "C" Agreements. Payment of all costs and fixed fee under any Appendix "C" Agreement shall be made to the Contractor by the Commission office or Sponsor executing the Agreement in accordance with the procedures established by said Agreement.

ARTICLE VII - GOVERNMENT PROPERTY

1. Except as otherwise specifically agreed upon in writing by the Contractor and the Commission and except as otherwise specifically provided herein:
 - (a) Title to all property especially purchased by the Contractor for this Agreement, for which the Contractor is entitled to direct reimbursement under the provisions of this Contract, shall pass directly from the vendor to the Government; and
 - (b) Title to all property utilized in the work of this Agreement, provided by the Contractor from Contractor-owned stores or manufactured by the Contractor in the ordinary course of its commercial business, for which the Contractor is entitled to reimbursement under the provisions of this Contract, shall pass to the Government at the time of such utilization.
2. The Government reserves the right to furnish any property or services required for or useful in the performance of the work under this Agreement. Title to all property so furnished shall remain in the Government.
3. The Government shall retain title to all products, by-products, wastage, salvage, work-in-process, residues and scrap resulting from property to which the Government has or had title pursuant to paragraphs 1 and 2 above.
4. All items of Government-owned property referred to above are hereafter collectively referred to in this Article as "Government Property."

To the extent practicable, the Contractor shall cause all nonexpendable items of Government property to be suitably marked with an identifying mark or symbol indicating that the items are the property of the Government. The Contractor shall maintain, at all times and in a manner satisfactory to the Commission, records showing the disposition and use of Government property. Such records shall be subject to Commission inspection at all reasonable times. It is understood that the Commission shall at all reasonable times have access to the premises wherein any items of Government property are located.

5. The Contractor shall promptly notify the Commission of any loss or destruction of or damage to Government property (but not of any consumption of materials or supplies in the performance of its undertakings hereunder). Except as otherwise specifically provided in this Agreement, the Contractor shall not be liable for loss or destruction of or damage to Government property (in the possession or custody of the Contractor in connection with this Agreement) unless such loss, destruction or damage is due to gross negligence or wilful misconduct attributable to the Contractor's corporate officers or its supervisory employees.
6. Except as otherwise authorized in writing by the Commission, items of Government property referred to above shall not be used by the Contractor except in the performance of its obligations under this Agreement.
7. In the event of loss or destruction of or damage to Government property, the Contractor shall take such steps to subserve the Government's interest as the Commission authorizes or approves. If the Contractor is liable for loss or destruction of or damage to any items of Government property, it shall promptly account therefor to the satisfaction of the Commission; if the Contractor is not liable therefor, and is indemnified, reimbursed, or otherwise compensated for such loss, destruction or damage (other than by the Government under this Agreement), the Contractor shall promptly account to the Government for an equitable share of such indemnification, reimbursement, or other compensation; in any event, the Contractor shall do nothing to prejudice the Government's rights to recover against third parties for any such loss, destruction or damage, and, upon request of the Commission, shall furnish the Government all reasonable assistance and cooperation (including the prosecution of suit and the execution of instruments of assignment in favor of the Government) in obtaining recovery.
8. The Contractor may, with the approval of the Commission, (a) transfer or otherwise dispose of items of Government property to such parties and upon such terms and conditions as so approved, or (b) itself acquire title to items of property at prices mutually agreed upon by the Commission and the Contractor without the necessity of execution of an amendment to this Agreement. The proceeds of any such transfer or disposition, and the agreed price of any such Contractor acquisition, shall be applied in reduction of any payments or reimbursement to be made by the Government to the Contractor under this Contract or shall otherwise be paid in such manner as the Commission may direct.

9. The Contractor shall conform to all regulations and requirements of the Commission concerning the management, inventory control, storing and disposal of Government property. The Contractor agrees to prepare and submit to the Commission for review, within sixty (60) days after the execution of this Agreement, a written statement of the methods to be used and of the procedures to be followed by the Contractor in regard to management, inventory control, storing and disposal of Government property. The Contractor shall not use any method or procedure in this regard which the Commission has advised the Contractor is contrary to Commission policy or which is otherwise prohibited by this Agreement.

10. With respect to each item of Government property located at Site A not sold or otherwise disposed of by the Contractor or acquired by the Contractor pursuant to paragraph 8 above, the Government, within one hundred twenty (120) days following the termination or expiration of the period of performance of this Contract, or any extension thereof, shall abandon or remove it, without incurring any further liability to the Contractor.

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(a) In the event the Government occupies Site A pursuant to subparagraph d(1) of paragraph 2 of Article III - TERM, EXPIRATION AND TERMINATION, the rights in the Government to abandon or remove, as set forth in this paragraph, shall be suspended during the period of such occupancy and the one hundred twenty (120) day period during which the Government must either abandon or remove such property shall not commence to run until the end of such occupancy.

(b) Prior to determination by the Government to abandon or remove any item of Government property, the Contractor agrees, if the Government so requests, to negotiate with the Government in good faith to purchase such item or items at a price mutually agreed upon, it being understood, however, that the Contractor shall not be required to negotiate any price in excess of the value to the Contractor of said item or items.

(c) There shall be no charge to the Government by the Contractor for the storage of such property (i) for one hundred twenty (120) days after termination or expiration of this Contract; (ii) for one hundred twenty (120) days after (a) September 30, 1964, or (b) such earlier date as the Government may voluntarily terminate its right of occupancy as hereinabove provided; or (iii) during the period of the close-out of this Contract.

ARTICLE VIII - SETTLEMENT OF GOVERNMENT INVESTMENT IN IMPROVEMENTS

1. Definitions. As used in this Article:

(a) The term "improvements" shall mean any and all renovations, alterations, improvements, or additions, including but not limited to all materials, supplies, and other property purchased at the expense of the Government and incorporated into such improvements, made at the expense of the Government to and incorporated as part of the land or buildings of the Contractor on

Cantiague Road in Hicksville, Long Island, New York, designated as Sites A and B, as is more specifically provided in Article II - SITE OF THE WORK, hereof. It is understood and agreed by way of example but not limitation that there will be excluded from the meaning of the term "improvements" any manufacturing equipment, including associated wiring, duct works, controls, etc., which can be severed from the property without necessitating structural repairs (including but not limited to any breaking or repairing of walls or ceilings) to the buildings. All other items incorporated into said land or buildings, except manufacturing equipment and associated wiring, duct works, controls, etc., referred to in the preceding sentence, shall be deemed to be improvements. It is further understood and agreed that upon payment therefor by the Contractor to the Government, as provided in this Article, the Contractor shall have sole and exclusive title as against the Government to all improvements in Sites A and B.

(b) The term "appraised value in place" shall mean the value of the improvements in their existing condition, as determined by the appraiser(s), as of the date of the appraisal.

(c) The term "appraised net salvage value" shall mean the estimated salvage value, as determined by the appraiser(s), of the improvements less the estimated costs, as determined by the appraiser(s), of (i) the removal of such improvements, and (ii) the restoration of the Contractor's land and buildings at Sites A and B to substantially the same condition, except for reasonable wear and tear, existing immediately prior to the incorporation therein of such improvements.

2. Upon termination or expiration of this Agreement, the appraised value in place and the appraised net salvage value of the improvements shall be determined by a person or persons mutually acceptable to the Government and the Contractor. Promptly following receipt of such appraisals, the Contractor shall in good faith negotiate with and pay to the Government an amount equal to the mutually agreed value of such improvements. The mutually agreed value shall be determined after giving full consideration to the appraised value in place and the current value to the Contractor of such improvements. In no event shall the mutually agreed value be less than the appraised net salvage value of any improvement. Failure to agree upon either an acceptable appraiser(s) or the mutually agreed value pursuant to the foregoing provision of this Article shall be considered a dispute to be settled in accordance with the General Provision of this Contract entitled DISPUTES.

ARTICLE IX - PATENTS

1. Whenever any invention or discovery is made or conceived by the Contractor or its employees in the course of, in connection with, or under the terms of this Agreement, the Contractor shall furnish the Commission with complete

information thereon; and the Commission shall have the sole power to determine whether or not and where a patent application shall be filed, and to determine the disposition of the title and rights under any application or patent that may result; provided, however, that with respect to such inventions or discoveries made or conceived in the course of, in connection with, or under, the terms of paragraph 1 of Article I, the Contractor, in any event, shall retain at least a nonexclusive, irrevocable, royalty-free license under said invention, discovery, application, or patent, such license being limited to the manufacture, use and sale for purposes other than use in the production or utilization of special nuclear material or atomic energy. Subject to the license retained by the Contractor, as provided in this Article, the judgment of the Commission on these matters shall be accepted as final; and the Contractor, for itself and for its employees, agrees that the inventor or inventors will execute all documents and do all things necessary or proper to carry out the judgment of the Commission.

2. No claim for pecuniary award or compensation under the provisions of the Atomic Energy Acts of 1946 and 1954 shall be asserted by the Contractor or its employees with respect to any invention or discovery made or conceived in the course of any of the work under this Agreement.
3. Except as otherwise authorized in writing by the Commission, the Contractor will obtain patent agreements to effectuate the purposes of paragraphs 1 and 2 of this Article from all persons who perform any part of the work under this Agreement, except such clerical and manual labor personnel as will not have access to technical data.
4. Except as otherwise authorized in writing by the Commission, the Contractor will insert in all subcontracts provisions making this Article applicable to the subcontractor and its employees.
5. The Contractor shall grant to the Government, to practice or have practiced, an irrevocable, non-exclusive license in and to any inventions (whether patented or not), secret processes, technical information and techniques of production, research and plant operation, which are directly utilized by the Contractor in the performance of the work of this Agreement. Such license shall apply to the manufacture, use and disposition of any article and material and to the use of any method or process. Such license shall be limited to governmental purposes related to (a) production of special nuclear material, (b) utilization of special nuclear material, and (c) utilization of atomic energy; provided, however, that the foregoing shall not limit the Government's right to sell, or cause to be sold, all products or by-products not used by or for the Government which result or remain from the use of any invention, process, information or technique to which such license applies.
6. (a) Except as otherwise stipulated in writing by the Commission, or as provided in paragraphs (b) and (e) below, the Contractor agrees to

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indemnify the Government, its officers, agents, servants and employees against liability (including but not limited to reasonable costs and expenses incurred) arising from the infringement or the alleged infringement of any Letters Patent (not including liability arising pursuant to Section 183, Title 35 (1952) U. S. Code, prior to issuance of Letters Patent) occurring in the performance of this Agreement, or arising by reason of sale to, or purchase by, or disposal by, or for the account of the Government of items manufactured or supplied under this Agreement.

(b) With respect to infringement or alleged infringement necessarily resulting from the Contractor's compliance with written specifications or provisions given by the Commission for components which are not standard commercial products of the Contractor or resulting from specific written instructions given by the Commission for the purpose of directing a manner of performance of the Contract not normally utilized by the Contractor, the Government agrees to hold the Contractor harmless from liability arising from such infringement or alleged infringement of any United States Letters Patent in view of the following facts:

- (i) the Contractor has not made an investigation as to the possibility of patent infringement,
- (ii) the Government and the Contractor desire to avoid the delay incident to a patent investigation, and
- (iii) the Contractor has not included in its price any provision for the settlement of possible patent claims.

Provided, however, that with respect to procurements undertaken on or after the date of actual execution of Modification No. 9, except as otherwise directed by the Commission, the Contractor will secure indemnification from suppliers or vendors of standard commercial products. The Contractor, to the extent that it can extend such aforesaid indemnification from suppliers or vendors, agrees to so extend this indemnification to the Government.

(c) Except as otherwise directed by the Commission in writing, the Contractor, with respect to claims and actions involving liabilities against which it is held harmless by the Commission, shall give prompt notice in writing to the Commission, of any such claims and actions of which it has notice and shall furnish promptly to the Commission copies of all pertinent papers received by the Contractor with respect to any such action or claim. If required by the Commission, the Contractor shall with respect to such actions or claims (at the Government's expense, by proper arrangement) assist the Government in the settlement or defense of such action or claim and shall furnish such evidence in its possession as may be required by the Government in the settlement or defense of such action or claim.

(d) The obligation of the Commission to the Contractor on claims or actions involving liability against which the Commission is indemnified

by the Contractor under the terms of this Agreement shall be identical with the obligations of the Contractor to the Commission under subparagraph (c), above, with respect to claims or actions involving liability against which the Contractor is held harmless by the Commission. In such situations, the Contractor shall be given full opportunity to participate in the defense against such claims and actions.

(e) However, anything to the contrary notwithstanding, the Contractor assumes no liability consequential or otherwise for, and the Government agrees to hold the Contractor harmless against liability (including but not limited to reasonable costs and expenses incurred) for infringement or alleged infringement by reason of the use of the completed product in combination with other items or materials or in the operation of any process.

ARTICLE X - PUBLICATIONS - PATENT CLEARANCE

The Commission recognizes that, during the course of work hereunder, or subsequent thereto, Sylvania Electric Products Inc., its employees or its subcontractors may from time to time desire to publish within the limits of security requirements information regarding technical or scientific developments arising in the course of the Contract. In order that the public disclosure of such information will not adversely affect the patent interests of the Commission and industry, patent approval for the release within the limits of security requirements shall be secured from the Commission prior to such publication, provided that Commission approval shall not be withheld solely for patent purposes for a period longer than six months after a written request for such patent approval is made and accompanied by full technical details (by setting forth in extenso and/or by specific reference to particular written information earlier furnished) relating to the information sufficient for the preparation of appropriate patent applications, and provided further that Sylvania Electric Products Inc., or its employees or its subcontractors, shall be free of such patent restrictions with respect to publication, within the limits of security requirements, of a particular item of such information if at least ten days prior to such publication the party desiring to publish certifies in writing to the Commission that such item of information contains no patentable subject matter, or alternatively, that U. S. patent application(s) on any patentable subject matter therein contained has or have been filed.

ARTICLE XI - PROCUREMENT AND SUBCONTRACTS

1. Approvals.

(a) The Contractor shall not enter into any subcontract without the written approval of the Commission, or Sponsor if applicable, of its terms and conditions. For the purposes of this paragraph, a subcontract is defined as any contractual arrangement (whether or not in the form commonly referred to as a "purchase order") with a third party for the

performance of a specific part of the work to be performed under this Agreement, which arrangement is specifically made for such performance and the cost of which is, apart from the provisions of this paragraph, an allowable cost under this Agreement, except, however, arrangements covering (i) the furnishing of a basic raw material, (ii) the furnishing of a standard commercial or catalog item, or (iii) the employer-employee relation.

(b) The Commission, or the Sponsor in the case of a Sponsor Agreement, reserves the right, from time to time, by written notice from the Commission, or Sponsor if applicable, to the Contractor (i) to make any or all other commitments or classes of commitments hereunder (other than the contractual arrangements referred to in (a) above) subject to, and to require their submission for, Commission, or Sponsor if applicable, approval, and (ii) to make any or all methods, practices, and procedures used or proposed to be used in effecting all arrangements and commitments hereunder subject to, and to require their submission for Commission, or Sponsor if applicable, approval. In this regard, the Contractor agrees to prepare and submit to the Commission, or the Sponsor if applicable, for review, within thirty (30) days after the execution of this Agreement (or any extension thereof approved in writing by the Commission), written statements of the daily procurement practices and procedures to be used and of the objectives intended to be accomplished by such practices and procedures. The Contractor will not use any procurement procedures prohibited by this Agreement or which the Commission has advised the Contractor are contrary to Commission policy.

(c) The Contractor shall obtain the prior written approval of the Commission before (i) purchasing motor vehicles, airplanes, typewriters, printing equipment, helium, or alcohol, (ii) leasing, purchasing, or otherwise acquiring real property, (iii) procuring any item or service on a cost, cost-plus-fee, or time-and-materials basis, (iv) purchasing any item which the Commission specifies is to be obtained from indicated Government sources, and (v) purchasing any item at a cost in excess of \$5,000, where payment for the cost of any action specified in (i) through (v) will be claimed hereunder.

2. Terms. The Contractor shall reduce to writing, unless this provision is waived in writing by the Commission, every subcontract or other commitment in excess of One Hundred Dollars (\$100.00) made by it for the purpose of its undertakings hereunder, except contracts covering the employer-employee relation (but not excepting contracts with consultants); insert therein a provision that such commitment is assignable to the Government; insert therein all other provisions required by law or expressly required by the provisions of this Agreement; and make all such commitments in its own name and not bind or purport to bind the Government or the Commission thereunder.

ARTICLE XII - CONDUCT OF THE WORK, INSPECTION AND REPORTS

1. In performing the work called for under this Agreement, the Contractor shall (a) utilize its best efforts, know-how and ability, (b) utilize its best efforts to have the work executed in the most workmanlike manner by qualified, careful and efficient workers in strict conformity with the best standard practices (subject to the directions of the Commission), (c) utilize its best efforts to provide sufficient technical, supervisory, administrative and other personnel to insure the prosecution of the work in accordance with pertinent production or other progress schedules, (d) if in the opinion of the Commission the Contractor falls behind any pertinent production or other progress schedule, use its best efforts to take such steps to improve its progress as the Commission may direct, and (e) if in the opinion of the Commission the Contractor's personnel or other reimbursable costs are excessive for the proper performance of this Contract, make such prospective reductions thereof as the Commission may direct.
2. The work of this Agreement is subject to (a) the general supervision of the Commission, and (b) the Commission authorizations, approvals and directions otherwise provided for in this Agreement. The Contractor shall proceed in the performance of this Agreement and shall place emphasis (or relative emphasis) on the various phases of the work of said Agreement, as and to the extent requested by the Commission from time to time. The Commission shall have the right to inspect in such manner and at such times as it deems appropriate, all activities of the Contractor in, or related to the course of the work under this Agreement.
3. The Contractor shall keep the Commission, or the Sponsor if applicable, fully advised of its progress hereunder and of the difficulties, if any, which it experiences and shall prepare and submit to the Commission, or Sponsor if applicable, in such quantity and form as may be directed by the Commission (a) monthly progress reports, (b) interim technical reports on completion of specific phases of the work, (c) production schedules, financial and cost reports, construction completion reports and such other special reports as may be requested by the Commission from time to time, and (d) a final report summarizing its activities, findings, and conclusions.
4. The Contractor shall appoint from its staff an over-all director of the work of this Agreement. The selection and continued assignment to said work of this director shall be subject to the approval of the Commission, or Sponsor if applicable.

ARTICLE XIII - CONSTRUCTION, ALTERATION OR REPAIR WORK

1. The Contractor shall not perform or have performed under this Agreement any construction, alteration or repair work in excess of One Thousand Dollars (\$1,000.00), including painting and decorating, without the prior written approval of the Commission.

2. In the event that the Contractor, under this Agreement, performs or has performed, construction, alteration or repair work, including painting and decorating, which work is within the scope of the Davis-Bacon Act (Act of March 3, 1931, c. 411, Sec. 1, 46 Stat. 1494, as amended; 40 U. S. Code 276 (a) et seq), the following provisions shall apply to such work:

(a) (i) All mechanics and laborers employed or working directly upon the site of the work will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by the Copeland Act (Anti-Kickback) Regulations (29CFR, Part 3) the full amounts due at the time of payment, computed at wage rates not less than those contained in the wage determination decision of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the Contractor or Subcontractor and such laborers and mechanics; and a copy of the wage determination decision shall be kept posted by the Contractor at the site of the work in a prominent place where it can be easily seen by the workers.

(ii) In the event it is found by the Contracting Officer that any laborer or mechanic employed by the Contractor or any subcontractor directly on the site of the work covered by this Contract has been or is being paid at a rate of wages less than the rate of wages required by paragraph (a) of this Article, the Contracting Officer may (a) by written notice to the Government prime Contractor terminate his right to proceed with the work, or such part of the work as to which there has been a failure to pay said required wages, and (b) prosecute the work to completion by Contract or otherwise, whereupon such Contractor and his sureties shall be liable to the Government for any excess costs occasioned the Government thereby.

(b) Apprentices. Apprentices will be permitted to work only under a bona fide apprenticeship program registered with a State Apprenticeship Council which is recognized by the Federal Committee on Apprenticeship, U. S. Department of Labor; or if no such recognized Council exists in a State, under a program registered with the Bureau of Apprenticeship, U. S. Department of Labor.

(c) Payroll Records and Payrolls.

(i) Payroll records will be maintained during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work. Such records will contain the name and address of each such employee, his correct classification, rate of pay, daily and weekly number of hours worked, deductions made and actual wages paid. The Contractor will make his employment records available for inspection by authorized

representatives of the Contracting Officer and the U. S. Department of Labor, and will permit such representatives to interview employees during working hours on the job.

(ii) A certified copy of all payrolls will be submitted weekly to the Contracting Officer. The Government prime Contractor will be responsible for the submission of certified copies of the payrolls of all subcontractors. The certification will affirm that the payrolls are correct and complete, that the wage rates contained therein are not less than the applicable rates contained in the wage determination decision of the Secretary of Labor attached to this Contract, and that the classifications set forth for each laborer or mechanic conform with the work he performed.

(d) Copeland (Anti-Kickback) Act--Nonrebate of Wages. The regulations of the Secretary of Labor applicable to contractors and subcontractors (29 CFR, Part 3), made pursuant to the Copeland Act, as amended (40 U.S.C. 276c) and to aid in the enforcement of the Anti-Kickback Act (18 U.S.C. 874) are made a part of this Contract by reference. The Contractor will comply with these regulations and any amendments or modifications thereof and the Government prime Contractor will be responsible for the submission of affidavits required of subcontractors thereunder. The foregoing shall apply except as the Secretary of Labor may specifically provide for reasonable limitations, variations, tolerances, and exemptions.

(e) Withholding of Funds to Assure Wage Payment. There may be withheld from the Contractor so much of accrued payments or advances as may be considered necessary to pay laborers and mechanics employed by the Contractor or any subcontractor the full amount of wages required by this Agreement. In the event of failure to pay any laborer or mechanic all or part of the wages required by this Agreement, the Contracting Officer may take such action as may be necessary to cause the suspension, until such violations have ceased, of any further payment, advance, or guarantee of funds to or for the Government prime Contractor.

(f) Subcontracts--Termination. The Contractor agrees to insert subparagraphs (a) through (f) hereof in all subcontracts and further agrees that a breach of any of the requirements of these articles may be grounds for termination of this Agreement. The term "Contractor" as used in such articles in any subcontract shall be deemed to refer to the subcontractor except in the phrase "Government prime Contractor."

ARTICLE XIV - DRAWINGS, DESIGNS, SPECIFICATIONS

All drawings, sketches, designs, design data, specifications, notebooks, technical and scientific data, and all photographs, negatives, reports, findings, recommendations, data and memoranda of every description relating thereto, as well as all copies of the foregoing relating to the work or any part thereof, shall be subject to inspection by the Commission at all reasonable times (for which inspection the proper facilities shall be afforded the Commission by the Contractor and its subcontractors), shall be the property of the Government, and

may be used by the Government for any purpose whatsoever without any claim on the part of the Contractor and its subcontractors and vendors for additional compensation and shall, subject to the right of the Contractor to retain a copy of said material for its own use, be delivered to the Government, or otherwise disposed of by the Contractor either as the Contracting Officer may from time to time direct during the progress of the work or in any event as the Contracting Officer shall direct upon completion or termination of this Contract. The Contractor's right of retention and use shall be subject to the security and patent provisions, if any, of this Contract.

ARTICLE XV - SOURCE AND SPECIAL NUCLEAR MATERIALS

The Contractor agrees to conform to all regulations and requirements of the Commission with respect to accounting for source and special nuclear materials (defined in the Atomic Energy Act of 1954).

ARTICLE XVI - GUARD AND FIRE FIGHTING FORCES

In connection with its work under this Agreement, the Contractor shall provide such guard or fire fighting forces, with such uniforms and equipment, as the Commission may from time to time require or approve. The cost thereof shall be deemed to be allowable costs.

ARTICLE XVII - TECHNICAL AND PROFESSIONAL ASSISTANCE

When, in the judgment of the Contractor, the complexity and nature of the Contract undertakings are such as to require supplemental expert technical or professional assistance, services or advice in connection with special phases of a technical character, the Contractor may with the written approval of the Commission engage or otherwise obtain such supplemental services. Compensation and reimbursement to any consultant engaged pursuant to this Article shall be governed by the provisions of Appendix "A" attached hereto except as may otherwise be specifically stated in the Contract with such consultants approved by the Commission.

ARTICLE XVIII - FINAL INSPECTION AND ACCEPTANCE

Final inspection and acceptance by the Commission of work under paragraph 1 of Article I of this Agreement shall be performed by the Commission or such other representative as may be designated by the Commission in writing at the Commission's Savannah River Operations Office. Final inspection and acceptance of work under any Appendix "C" Agreement shall be as provided therein.

ARTICLE XIX - INDEMNITY

1. Notwithstanding any other provisions of this Agreement, it is agreed that the Contractor shall not be liable for, and the Government shall, subject to the availability of funds, indemnify and hold the Contractor harmless against any and all losses or damages (including but not limited to

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personal injury, disease, or death of persons, or damage to or loss of use of property) and any and all expense in connection therewith, or in connection with alleged loss or damage (including but not limited to the expense of litigation), arising out of, based on, or caused by radioactive, toxic, explosive, or other hazardous properties of source, special nuclear, or radioactive materials, or products or by-products therefrom, which the Contractor, or the Government in the case it occupies the premises as provided in Article III - TERM, EXPIRATION AND TERMINATION, may use, possess, or otherwise handle under or in connection with this Agreement, whether or not any director, officer, employee, or agent of the company is responsible therefor; provided, however, that this obligation of the Government shall apply only in those instances where loss or damage, and expense in connection therewith or in connection with alleged loss or damage, is not due to or caused by gross negligence or bad faith on the part of any officer of the Contractor, or on the part of any representative or employee of the Contractor exercising the powers, responsibilities, and duties normally exercised by the plant manager having direction or supervision of the work undertaken by the Contractor hereunder, nor due to nor caused by wilful or grossly negligent failure to follow procedures and standards approved and transmitted to the Contractor by the Commission for the use, possession, or other handling of source, special nuclear, or radioactive materials, or products or by-products therefrom, on the part of any of the afore-described Contractor personnel. The obligations of the Government under this Article shall apply only to the extent that the Contractor is not covered and made whole by insurance; provided, however, that said obligations shall not apply to any loss or damage, or any expense in connection therewith or in connection with alleged loss or damage, if, and to the extent that, the Contractor is covered by insurance with regard to such loss or damage, or such expense in connection therewith or in connection with alleged loss or damage, but is not so made whole by said insurance because of some intentional misrepresentation by the Contractor in the obtainment of said insurance or by some breach by the Contractor of the terms and/or conditions of said insurance or of some other act or failure to act on the part of the Contractor as respects said insurance. The Contractor represents that it is presently maintaining, and the extent of the liability of the Government under this Article is limited in any event to the excess over, the insurance coverage, as such coverage has been reduced by loss or damage, and expense in connection therewith or in connection with alleged loss or damage, prior to the date of loss or damage, or expense in connection therewith or in connection with alleged loss or damage, indemnified against hereunder, where such reduction has not been reinstated in accordance with the Contractor's normal insurance practice, all of the foregoing being on the basis of the insurance coverage specifically approved by the Commission pursuant to General Provision 15 of the Contract entitled REQUIRED BONDS AND INSURANCE - EXCLUSIVE OF GOVERNMENT PROPERTY.

2. In view of the proximity of Site B to Site A, and notwithstanding any other provisions of this Agreement, the Government shall not be liable for, and the Contractor shall indemnify and hold the Government harmless against, any and all loss or damage to persons or property in Site A (including but not limited to personal injury, disease, or death of persons, or loss or damage to property) arising out of, based on, or in connection with the use by the Contractor of Site B, including, but not limited to, the use by the Contractor of any and all means of ingress or egress through Site A to or from all or any portion of Site B, in connection with activities other than those directly associated with the scope of work being performed in Site A under the Contract, regardless of whether such loss or damage to persons or property was caused by negligence of the Contractor or any director, officer, employee, or agent of the Contractor; provided, however, that nothing contained herein shall be construed to give any person, firm, or corporation not a party to this Agreement any right against the Contractor or the Government to which such person, firm, or corporation would not otherwise be entitled in law or in equity; and provided further that the Government's right of indemnity hereunder shall not extend to loss or damage to persons or property resulting from the Contractor's compliance with the Commission's rules and regulations or other instructions or caused solely by the negligence of any officer or employee of the Commission engaged in the performance of his or her official duties under and in connection with this Agreement.

ARTICLE XX - KEY PERSONNEL

It having been determined that the employees whose names appear below, or persons approved by the Contracting Officer as persons of substantially equal abilities and qualifications, are necessary for the successful performance of this Contract, the Contractor agrees to assign such employees or persons to the performance of the work under this Contract and shall not reassign or remove any of them without the consent of the Contracting Officer. Whenever, for any reason, one or more of the aforementioned employees is unavailable for assignment for work under the Contract, the Contractor shall, with the approval of the Contracting Officer, replace such employee with an employee of substantially equal abilities and qualifications.

1. Boyd Metz
2. W. Mandaro
3. H. Watts
4. E. Meyer
5. A. Andersen
6. R. Johnson

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Sylvania Electric Products Inc.
Sylcor Division
Appendix "A"

<u>Length of Service</u>	<u>Hourly Employee</u>	<u>Salary Employee</u>
6 months but less than 1 year	20 hours	1 week
1 year but less than 3 years	40 hours	2 weeks
3 years but less than 10 years	80 hours	2 weeks
10 years but less than 25 years	120 hours	3 weeks
25 years or more	160 hours	4 weeks

A week's pay in lieu of one week's vacation may be granted to employees who are eligible for three or four weeks' vacation.

Additional prorated vacation payments may be made to employees eligible for vacation pay based on the following lengths of service:

Hourly Employees

More than 26 weeks but less than 52 weeks	1/26 of 20 hours for each week above 26
More than 2 years 12 weeks but less than 3 years	1 hour for each week above 2 years 12 weeks

Salaried Employees

More than 26 weeks but less than 52 weeks	1/26 of 1 week's pay for each week above 26
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The above vacation allowances are non-cumulative and shall be taken prior to December 31 of the current vacation year or forfeited.

Shift premium if applicable, may be included in vacation payments. If the majority of the employees have actually worked on a schedule averaging 48 hours or more per week for the first six months of a calendar year, vacation payments may be based on a 48-hour per week straight time basis.

An extra day's vacation is allowed for each paid holiday falling within the vacation period. Payment for such holiday may be granted to hourly or non-exempt salaried employees.

Employees who leave the Company prior to July 1 of the current year may receive a vacation accrual equal to the number of weeks on the payroll since last July 1, divided by 52, multiplied by the normal vacation pay for an employee with their record of continuous service. Employees who leave the Company after July 1 who have not received the vacation pay to which they are eligible as of July 1, will receive such payments at the time of separation.

C. Sick Leave

1. Salaried Employees

Leave with pay may be granted to employees who are absent from work because of personal illness or injury. The amount of such leave granted shall be in accordance with established practices consistently applied throughout the Contractor's organization based upon the following schedule:

<u>Employee's Service</u>	<u>Cumulative Time Off in Any 12-Month Period</u>
Less than 6 months	1 week
6 months to 1 year	2 weeks
1 year to 2 years	4 weeks
2 years to 25 years	4 weeks plus 2 weeks for each full year of continuous service beyond 2 years up to maximum of 50 weeks
More than 25 years	50 weeks

No reimbursement shall be made for unused sick leave to employees upon termination of employment.

2. Hourly Employees

Excused leave with pay may be granted full-time employees who are absent from work for reasons of personal illness, injury, or disability based upon the following provisions:

Full-time employees with one or more years of continuous service who are on the payroll as of January 1 of any calendar year shall be credited with 40 hours of sick leave allowance for that calendar year.

Full-time employees who are not on the payroll as of January 1 but who return to work from layoff or leave of absence subsequent to January 1 shall be credited for the balance of the calendar year with an amount of sick leave allowance equal to the number of full calendar months remaining in the calendar year times 3-1/3 hours.

Full-time employees who complete their first year of continuous service subsequent to January 1 shall be credited for the balance of the calendar year with an

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amount of sick leave allowance equal to the number of full calendar months remaining in the calendar year times 3-1/3 hours.

Full-time employees who complete their first year of continuous services on or before the 15th day of the month will be credited with a full 3-1/3 hours of sick leave allowance for that month. Allowances for regular, part-time employees will be reduced proportionately, provided they are employed to work a minimum weekly work schedule of 20 hours or more.

Unused sick leave will be accumulated from year to year up to a maximum of 480 hours. In no case will unused sick leave pay be reimbursed to employees, including separation from the company, for any reason.

Sick leave pay shall be computed at the employee's straight-time hourly rate in effect on the first full or partial day of absence. Shift premium may be added to such straight-time sick leave for employees who, if they worked, would have been assigned to a premium shift.

Employees receiving sick leave pay will not be entitled to Non-Occupational Insurance Benefits for the same period of absence. The number of weeks of Non-Occupational Disability Insurance Benefits to which an employee is entitled shall be reduced by the equivalent number of consecutive 40-hour increments (or fractional portion thereof) of sick leave pay received. Non-Occupational Disability Insurance Benefits will commence at the termination of sick pay if the employee is still unable to return to work due to personal illness or injury and has been disabled for more than seven (7) consecutive calendar days.

Payments received under Workmen's Compensation, cost reimbursed in whole or in part by the Commission, shall be deducted from the sick leave pay received by an employee during any period such payments are received. Sick leave pay will be the difference between the weekly Workmen's Compensation payment and the employee's weekly straight-time wage in effect at the time an occupational disability occurs. Where such partial sick leave payments are made, the number of hours to be charged against an employee's sick leave allowance will be determined by dividing the employee's straight-time earnings into the appropriate amount of weekly sick leave pay to be granted.

D. Other Absences

1. Court Duty

Employees may be allowed time off without loss of straight-time pay for required jury duty or for required appearance at a court trial.

- a. Hourly and Non-Exempt Salaried Employees will receive the difference between fees received from the court and their normal pay for an eight-hour day.
- b. Exempt Salaried Employees will be paid their normal salary in addition to court fees.

2. Marriage

When an employee elects to be married, he may be granted time off as follows:

- a. Hourly Employees: Up to one week off without pay.
- b. Salaried Employees: Less than 6 months service: Up to one week off without pay. Six months service or more: Up to one week with pay.

3. Death in the Immediate Family

Any employee may be granted up to three working days off with pay because of the death of the employee's spouse, father, mother, son, daughter, brother or sister, mother-in-law or father-in-law.

4. Required Military Duty

Time off for required military reserve duty, not to exceed two weeks during any twelve-month period may be granted to:

Hourly Employees - without pay

Salaried Employees

- (a) Less than six (6) months service - without pay.
- (b) With more than (6) months service, the difference, if any between their salary base rate and their military pay for the period.

All employees with six (6) months or more of continuous service who are ordered to active duty for periods of not less than six (6) months duration may receive the equivalent of one (1) month's pay upon release from employment to perform such duty unless he enlists while on an approved occupational deferment.

5. Required Selective Service Examination

Time off with pay may be granted to employees required to visit military examination centers for the purpose of taking preliminary or final type examinations. The amount paid to non-exempt employees shall not exceed eight (8) hours of straight-time pay, including shift premium, if any.

6. Personal Reasons

Time off may be granted to employees absent for personal reasons, such as illness in the family, travel, etc.

Time off for personal reasons may be granted to hourly employees only on a non-pay basis. Salaried employees with six or more months of continuous service may be paid for time off not to exceed five days per year. Time off with pay shall be paid at the salary base rate plus shift premium based on the normal work day, or part thereof, not to exceed eight (8) hours. When such time off exceeds two (2) weeks, additional time off shall come under provisions of II.D.7., below.

7. Leave of Absence

A leave of absence without pay may be granted to employees who are absent for two or more weeks but not to exceed 18 months. Seniority or other benefits shall not be accrued during leaves of absences granted under this section.

III. WAGE AND SALARY ADMINISTRATION

A. Salary Schedules

Employees whose wages or salaries are cost-reimbursed under the Contract shall be employed in the job classification, grade and salary ranges approved under Schedules I and II attached hereto. Current organization charts, job descriptions and appropriate wage and salary data will be filed with the Commission in support of approved job classifications, grades and wage and salary ranges. Cost of living and general wage and salary adjustments require the prior approval of the Commission.

B. Increases and Promotions

1. Salaried Employees

It is the policy of the Contractor to base the employee's salary on his production and accomplishments in terms of the requirements of his job classification and the rate range for the classification. Reclassification, promotions and merit

raises may be made at the discretion of the Contractor in accordance with established practices and procedures. Salaried employees may be considered for merit increases in accordance with the following schedule.

<u>Employee's Place in Rate Range</u>	<u>Interval Between Merit Increases</u> <u>Salaried Employees</u>	
	<u>Non-Exempt</u>	<u>Exempt</u>
Below mid-point of salary range	6 months	12 months
Above mid-point, not immediately promotable	12-18 months	18-24 months
Above mid-point, immediately promotable	6 months	12 months

A non-exempt salaried employee's job performance shall be reviewed semi-annually and he may receive an increase of up to 5% of his base rate at each semi-annual review. Merit increases for exempt salaried employees shall not be granted less than one year from the preceding merit or promotional increase except in unusual cases, and in no case shall they exceed 10% per year. Exceptions may be granted only with the prior approval of the Commission. No merit increase shall be given in excess of the established maximum rate for the position of the exempt or non-exempt salaried employee.

2. Hourly Employees

Merit raises within the appropriate labor grade may be given once every three calendar months. In unusual circumstances a merit raise may be given after two calendar months have elapsed after a previous merit increase. New hires may receive a merit increase at the conclusion of a 45-day probationary period. New hires with trainee classification may be promoted to their regular classification and brought to their first step of the appropriate labor grade at the conclusion of a 45-day probationary period.

C. Leadman Premium (Hourly Employees)

An employee officially designated as a "Leadman" may be paid a 10% premium in addition to his hourly rate.

D. Shift Differential

Premium pay of 10% of straight time and overtime earnings will be paid for work on shifts commencing outside the hours of 7:00 a.m. to 9:00 a.m.

E. Compensation for Premium Time - Overtime and Holiday Work

As deemed essential to the performance of Contract work, the Contractor may authorize occasional overtime. Work weeks in excess of 40 hours scheduled for more than four consecutive weeks shall require prior approval of the Commission. Payments for overtime work shall be in accordance with the Federal Wage and Hour Law and the Contractor's established pay practices.

Regular employees may receive their regular straight time pay, not to exceed eight hours (including shift premium if applicable) for unworked official holidays.

If a non-exempt employee is required to work on an official holiday, he will be compensated for the hours worked at one and one-half times his normal rate of pay including shift differential in addition to the basic eight hours holiday pay.

F. Report-in Pay

An employee who reports to work for his scheduled hours will receive full pay from such hours (not to exceed 8) for that day even though idle or sent home early because of delay or shortage or other reasons beyond his control, except that no such pay shall be made in cases where the Company's failure to provide work is due to power failure, fire, flood, weather conditions, or other conditions beyond the Company's control.

G. Call-in Pay (Non-exempt Salaried and Hourly Employees)

Employees who are called in for emergency work outside their regularly scheduled hours may be paid at overtime rates for such hours worked for a minimum of four hours straight time, whichever is greater.

H. Separation Pay

1. Separation Pay in Lieu of Notice

Employees with six (6) months or more of continuous service who are permanently and involuntarily separated without prejudice will receive notice or separation pay in lieu of notice as indicated below:

- a. Hourly Employees - One (1) week's notice or one (1) week's pay at base rate, not to exceed 40 hours.

Should an hourly paid employee be separated because of lack of work while assigned to commercial work at the Hicksville Plant and "bump" through seniority rules an employee on Contract work, it is agreed the Commission shall not be liable for separation pay to the separated employee. Where an employee engaged on Contract work at the Hicksville Plant "bumps" a less senior employee assigned to commercial work, the Commission shall reimburse the Company, if required, for separation payments to the employee thus separated. In all instances where the Commission reimburses for separation pay to employees not engaged on its work at time of separation, payments must be approved by the Commission.

- b. Non-exempt Salaried Employees - Two (2) weeks' pay and as much notice as possible. An additional one week's pay may be granted to employees having five (5) or more years of continuous service.

Separation pay to eligible employees whose total Company service has been divided between the Contractor's commercial activities and work under this Contract shall be prorated according to length of service on Contract work and the Company's commercial activities.

- c. Exempt Salaried Employees - Four (4) weeks pay or until the employee secures new employment for employees with up to five (5) years continuous service. An additional one (1) week's pay for each year, or portion thereof, of continuous service in excess of 5 years service or until the employee secures new employment except that in no instance shall the employee receive more than 15 weeks separation pay. Separation pay to eligible employees whose total Company service has been divided between the Contractor's commercial activities and work under this Contract shall be prorated according to length of service on Contract work and the Company's commercial activities.

2. Severance Pay - Hicksville Site Closing

Reimbursement will be made to the Company for severance payments only in the event that the Hicksville site is closed because of termination or expiration of this Contract. Severance payments made to employees whose total service has been divided between the Contractor's commercial work and work under this Contract shall be prorated according to the length of service on Contract work and commercial work. Employees whose employment is terminated because of the closing of the Hicksville site may receive severance pay in accordance with the following schedule:

1 day's pay for each of the employee's first 5 years of continuous service.

1 week's pay for each of the employee's years of continuous service over 5 years.

IV. EMPLOYEE BENEFITS

A. Educational Benefits

When an employee is assigned to an educational course as part of his work under this Contract, the Contractor may pay the cost of the course, including books and required travel expenses.

Employees who elect to take educational courses may be reimbursed by the Contractor as outlined below.

1. The employee must obtain approval of the Plant Manager prior to enrolling in the course.

2. Upon completion of the course and before reimbursement for any part of the course cost is made, the employee shall provide acceptable evidence of successful completion and appropriate properly receipted bills.
3. If the course is directly related to the performance of Contract work, 100% tuition will be refunded upon satisfactory completion of the course.
4. If the course is not directly related to the employee's present work but is related to the employee's development for higher level work in which there is a reasonable probability that he may be engaged under the Contract, 50% of the tuition may be refunded upon satisfactory completion of the course.
5. If the course is not directly related to Contract work but part of the requirement for a degree in a field directly related to the Contract work in which the employee is engaged, 50% of the tuition may be refunded upon satisfactory completion of the course.

In addition to the benefits outlined above, up to six hours time off per week with pay may be granted to employees who take approved graduate-level courses related to this Contract.

B. Group Insurance

The Contractor maintains group insurance program for all eligible and retired employees including: 1) life insurance, 2) accidental death and dismemberment insurance, 3) insurance for company travel, 4) hospital-surgical-medical insurance, 5) major medical insurance, and 6) non-occupational disability insurance, the details of which are on file and approved by the

Commission. The Contractor's contribution to the cost of the program is reimbursable on a pro rata share basis as approved by the Commission. A proper share of dividends, premium refunds, and other credits accrued to the approved group insurance program will be credited to the cost of Contract work. The following group insurance programs are provided by the Contractor.

1. Life Insurance is provided for all regular employees at no cost to the employee after one month of Company service. The amount of insurance is determined by the employee's base rate of pay. The face value of the life insurance per eligible employee will be a minimum of \$3,000 and a maximum of \$225,000. Insurance coverage may be extended up to one year during a period an employee is totally disabled.
2. Accidental Death and Dismemberment Insurance is provided for all regular employees at no cost to the employee after one month of Company service. The amount of insurance is determined by the employee's base rate of pay, with a minimum of \$3,000 and a maximum of \$20,000 for any one accident. Insurance coverage may be extended up to one year during the period an employee is totally disabled.
3. Insurance for Company Travel is provided at no cost to the employee to cover death while an employee is traveling on, and as a result of, Company business. The amount of death insurance will be two times the employee's base annual salary, subject to a minimum of \$25,000 and a maximum of \$150,000.
4. Hospital-Surgical-Medical Insurance is provided for regular employees at no cost to the employee after one month of Company service. The insurance covers the employee and his dependents. Insurance coverage may be extended up to one year during a period an employee is totally disabled.
5. Major Medical Insurance is provided for all regular employees at no cost to the employee after one month of Company service. Major Medical Insurance is in addition to the basic Hospital-Surgical-Medical Insurance. Insurance coverage may be extended up to one year during a period an employee is totally disabled.
6. Non-Occupational Disability Insurance is provided to all employees at no cost to the employee immediately upon employment if the employee was a covered employee working for a covered employer within the preceding six months or after 28 calendar days of

employment. Benefits under this plan begin eight (8) days after a non-occupational illness or injury. Payments under this policy are made in lieu of salary or wages in an amount equal to one-half of the normal weekly pay, but not to exceed \$65 per week. Benefits under this policy for any one accident or illness may not be paid for more than 26 weeks.

C. Pension Plan

A non-contributory Pension Plan is provided all employees of the Contractor, the details of which are filed with and approved by the Commission.

D. Savings and Security Plan

Regular employees with one year of continuous service may participate in a voluntary Savings and Security Plan as filed and approved by the Commission. Under the Plan participating employees contribute 3% of their earnings by payroll deductions and the Contractor contributes 6% of its net profits before Federal tax based on income for each year but not to exceed an amount equal to the total amount contributed by the members and not withdrawn during the year.

V. TRAVEL, TRANSPORTATION, SUBSISTENCE, AND MOVING EXPENSES

A. Travel, Transportation and Subsistence

Travel incurred by employees, consultants and prospective employees in connection with the performance of contract work may be reimbursed as follows:

1. The actual cost of transportation by common carrier, or \$.08 per mile plus highway, bridge, ferry and tunnel tolls when travel by private passenger vehicle is authorized.
2. The reasonable actual cost of lodging in accordance with prevailing locality rates plus an allowance not in excess of \$7.50 per day for subsistence.
3. The actual cost of necessary telephone calls, telegrams, and incidental transportation and personal expenses.

B. Moving and Relocation Expenses

Key scientific, technical and professional employees moving and relocation expenses to plants operated in connection with the performance of contract work may be reimbursed as follows:

1. Transportation expenses for an employee and dependents as in A. 1., above.
2. The reasonable actual cost of lodging plus a subsistence allowance not in excess of \$7.50 per employee, \$6.00 for each dependent over 12 years of age and \$4.00 for each dependent 12 years of age and under while enroute from place of permanent residence to transferred location.
3. A living expense allowance not to exceed \$9.00 per day for thirty (30) days to cover additional living expenses of an employee where family remains at principal place of permanent residence at time of transfer. In addition, the incurred cost of two (2) round trips from place of work to principal place of permanent residence during this period.
4. Reasonable travel expenses incurred by an employee's wife in making visits not in excess of two round trips to new location prior to transfer of residence with such expenses reimbursed in accordance with A.1., 2., and 3. above; or, if traveling with husband, in accordance with B.1., and 2. above.
5. Reasonable brokerage fees not to exceed 5% of sale price plus legal and other necessary closing fees in connection with the sale of principal place of permanent residence at the old location; or, a reasonable cancellation fee not to exceed the equivalent of three (3) months' rental in connection with the breaking of a lease on a rented house or apartment.
6. Legal fees and other unavoidable expenses not to exceed 3% of the purchase price in connection with the purchase of a residence at the new location.
7. The cost of real estate taxes, fire insurance, and interest on the mortgage on the old house not in excess of the equivalent of one month's payment when it is necessary for an employee to take title to a house in the new location without completing the sale and transfer of title to his house at the old location.
8. The reasonable cost of transportation of household goods and effects including packing, crating, insurance, unpacking, disconnecting and connecting equipment and for temporary storage of household goods and effects not in excess of thirty (30) days.
9. Incidental relocation expenses not to exceed 50% of one (1) month's base salary for an employee who owns and transfers household goods to the new location.

C. New Hires - Key Scientific, Technical and Professional Employees

Travel and moving expenses incurred by new hires in connection with Contract work may be reimbursed as follows:

1. Transportation and moving expenses for an employee and dependents as in V.A.1., B.2., and B.8.
2. Reasonable cost of room and board for two weeks and reasonable travel expenses incurred by an employee or his wife in making visits not to exceed two round trips between new location and former residence if the new employee relocates before moving his family.

VI. MISCELLANEOUS EXPENSES AND ALLOWANCES

A. Pre-Employment Physical Examination

Reimbursements may be made for the expense of pre-employment physical examinations performed by a non-company physician when such examinations are necessary for the placement of an individual on Contract work... Such reimbursements will not exceed \$35 for any one individual.

B. In-Plant Training Courses

The reasonable costs of in-plant training courses deemed essential and of benefit to the performance of Contract work are approved as allowable Contract costs.

C. Outside Training and Meetings

When it is in the interest of the Contract for an employee to participate in outside training at the request of the Contractor or attend scientific, technical, or professional meetings, the cost of such training or attendance is an allowable cost under the Contract. Participation in outside training or attendance at meetings for a period of five (5) working days or more and all foreign travel incurred in connection therewith, will require the prior approval of the Commission.

D. Licenses, Professional Society Memberships, and Magazine Subscriptions

1. When professional licenses are considered essential to the performance of Contract work or where an employee is the official representative of the Contractor or attends meetings of engineering, management or professional societies as part of his work, reimbursement may be made for the actual costs of such licenses, dues or memberships, and magazine subscriptions.

2. Where employee subscriptions to technical magazines, professional licenses, or memberships in scientific, engineering or professional societies are considered of benefit to the performance of Contract work, reimbursements may be made up to one-half the costs of such subscriptions, licenses or memberships.

E. Publication Awards

Employees may receive token awards not to exceed \$50 for publications of technical papers in technical journals which are of interest to the Contract and for which no compensation has been received from the publisher.

F. Employee Social and Recreational Activities

Costs incurred as Contractor contributions to employee social and recreational activities may be made in an amount not exceeding the equivalent of 9 cents per week per employee.

G. Supper Money

Reasonable supper money allowances may be paid to exempt employees when they are not receiving overtime pay and work 2½ hours or more past the end of their standard shift. Non-exempt salaried and hourly employees, who receive overtime wages, will not receive supper money.

H. Employment Agency Fees

When employment agency services are required to secure properly qualified personnel for the performance of Contract work, agency fees for such services may be reimbursed in an amount not exceeding 10% of an employee's base annual wage or salary.

I. Printed Material

A pro rata share of the cost of printed material which is distributed to employees for training, information and indoctrination under the Contract is reimbursable.

J. Clothing Loss

Damage to or loss of employee clothing and personal property as the result of the performance of Contract work and not attributable to the employee's carelessness or negligence will be reimbursed. The amount of reimbursement will be based on replacement cost minus a fair depreciation estimate.

K. Personal Protective Equipment

The Contractor will be reimbursed for the cost of providing employees with required personal protective equipment or clothing in accordance with the Contractor's established policies and practices.

L. Patent Awards

The Contractor may be cost-reimbursed in amounts not to exceed \$50 per employee under the Contractor's Patent Award Program for patents granted and assigned to the Commission. Where the invention or discovery is of particular importance or value to the Commission, additional awards may be granted with prior written Commission approval.

M. Suggestion Awards

The Contractor may be reimbursed on a pro rata share basis for the reasonable cost of a Suggestion Awards Program. Hourly and non-exempt salaried employees on jobs which require working out improvements, developments, or new ideas shall be eligible for awards for only those suggestions which apply outside the scope of their own responsibility, duties, or assignments. Exempt employees shall not be eligible for suggestion awards. The minimum award is \$7.50. The maximum award is \$25,000. Reimbursement of any award in excess of \$250 for any one employee or \$500 for any employee group shall be subject to the approval of the Commission. The Contractor will provide the Commission with such data as may from time to time be required for appraisal and substantiation of costs incurred under the program.

O. Family Day

The Contractor may be reimbursed on a pro rata share basis for the reasonable cost of holding an annual "Family Day - Open House" program. Reimbursement shall be subject to prior approval of the Commission.

VII. EXECUTIVE COMPENSATION

Executive compensation including bonuses and other remunerations will, for cost-reimbursement purposes, not exceed a pro rata share of the equivalent of \$30,000 per annum for any one executive. The determination of allowable related costs based on compensations paid will also be determined on the basis of the foregoing limitation. In addition, prior Commission approval shall be obtained on the establishment or adjustment of single rates or rate ranges which exceed \$20,000 per year and on any individual salary action which involves a total compensation of \$20,000 or more per year.

Contract No. AT(30-1)-1293 with
Sylvania Electric Products Inc.,
Sylcor Division
Appendix "A"

SCHEDULE ISALARIED EMPLOYEESExempt

<u>Job Classification</u>	<u>Grade</u>	<u>Monthly Salary Range</u>
Manufacturing Manager	13 J	\$1123 - \$1865
Engineering Manager "B"	12 J	996 - 1670
Engineering Specialist Plant Manager "C" Section Head	11 J	912 - 1520
Manufacturing Superintendent Supervisor of Product Engineering Advanced New Product Development Engineer-Sylcor	10 J	830 - 1375
Advanced Research (or Development) Engineer Engineer-in-Charge Supervisor of Quality Control "A"	9 J	740 - 1230
Equipment Design Specialist General Foreman Project Engineer Research (or Development) Engineer Supervisor of Cost Control "A"	8 J	671 - 1115
Safety Engineer, Sylcor Research Metallographer Senior Engineer "A" Supervisor, Production Control Supervisor, Quality Control "B" Supervisor of Personnel "B"	7 J	612 - 1015

Contract No. AT(30-1)-1293 with
Sylvania Electric Products, Inc.
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Monthly Salary Range</u>
Contract Administrator Equipment Designer, Sr. Purchasing Agent "A" Senior Engineer "B" Supervisor of Security and Administrative Service Supervisor of Maintenance "B" Toolroom Foreman Foreman Class I Tool Coordinator	6 J	\$ 567 - \$940
Buyer Cost Analyst & Statistician Supervisor of An Accounting Department Section	5 K	544 - 870
Engineer Foreman, Nuclear Products Industrial Engineer Accountant, Senior Technical Foreman II Personnel Assistant Systems and Procedures Analyst, Jr. Equipment Designer	4 K	497 - 795
Cost Accountant	3 K	452 - 725

General Wage Increase - Effective
August 13, 1962, raised maximum of
monthly salary ranges

Contract No. AT(30-1)-1293 with
 Sylvania Electric Products, Inc.,
 Sylcor Division
 Appendix "A"

SCHEDULE I
SALARIED EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Weekly Salary Range</u>
Master Craftsman	65	\$ 132 - \$ 198
Technical Associate	64	123 - 185
Design-Draftsman	63	115 - 172
Material Requirements Clerk Production Supervisor I Maintenance Supervisor I Technician, Senior Production Scheduling Clerk	62	106 - 162
Draftsman Accountant, Junior Production Supervisor II Safety Inspector Supervisor of Plant Protection	60	95 - 144
Employment Interviewer & Counselor Buyer, Junior Nurse, Senior Technician Stock Clerk Production Control Clerk	59	89 - 135
Payroll Accountant Purchasing Clerk Secretary, Senior	58	84 - 127

Contract No. AT(30-1)-1293 with
Sylvania Electric Products, Inc.,
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Weekly Salary Range</u>
Draftsman, Junior Nurse Production Section Leader	57	\$ 80 - \$ 120
Production Control Clerk, Junior Technician, Junior Secretary Accounting Clerk, Senior Stock Clerk, Junior Statistical Clerk, Senior	56	75 - 111
Clerk, Senior	55	72 - 103
Accounting Clerk, Junior Statistical (Technical) Clerk Telephone Operator II	54	69 - 96
Clerk-Typist	52	69 - 84

General Wage Increase - Effective September 3, 1962
and Change from Monthly to Weekly Salary Ranges

Contract No. AT(30-1)-1293 with
 Sylvania Electric Products, Inc.
 Sylcor Division
 Appendix "A"

SCHEDULE II

HOURLY EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Hourly Salary Range</u>
Tool, Die & Model Maker "A"	LG 12	\$2.97 - \$3.56
Machinist "A" Electrician Specialist Inspector "A" Sheet Metal Specialist	LG 11	2.81 - 3.39
Mechanic "A" Welder "A" Sheet Metal Worker "A" Electrician "A" Welder I Machinist I	LG 10	2.65 - 3.19
Machinist "B" Carpenter Inspector "B"	LG 9	2.50 - 3.00
Mechanic "B" Process & Equipment Checker Assembly & Furnace Brazing Rolling Mill Operator Melter Guard Sergeant Fluoroscope Operator & X-Ray Inspector	LG 8	2.36 - 2.84

Contract No. AT(30-1)-1293 with
Sylvania Electric Products, Inc.,
Sylcor Division
Appendix "A"

SCHEDULE II

HOURLY EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Hourly Salary Range</u>
Armed Guard	LG 7	\$2.21 - \$2.66
Armed Courier		
Storekeeper		
Machinist "C"		
Inspector "C"		
Chemical Room Operator		
Machining Operator-CPP		
Sodium Loading Dry Box Operator		
Briquetting Operator		
Heat Treatment Operator		
Hot Pressing Operator-VB		
Welding Operator		
Machining Operator-VB		
Fluoroscope Operator		
Hot Press Operator		
Finishing Operator		
Maintain Chemical Solutions		
Materials Stock Clerk	LG 6	2.09 - 2.50
Mechanic "C"		
Maintain Chemical Solutions		
Canning-Hot Press Operator		
Canning-Assembler		
Die Processing Operator		
Machining Operator-AEC		
Plating Machine Operator		
Fabrication Operator		
Rack Maintenance Man		
Groundskeeper	LG 5	1.97 - 2.35
Trainee, Production		
Maintenance Apprentice	LG 4	1.86 - 2.21
Cafeteria-Dishwasher, Porter	LG 3	1.76 - 2.08
Janitor-Porter		

General Wage Increase - Effective
September 3, 1962

WSRC DECLASSIFICATION REVIEW	
1st Review Date: <u>4/28/64</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>Rh Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/64</u>	A
Authority: <u>ADD</u>	3. Classification Cancelled
Name: <u>AT(30-1)-1293</u>	

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 DATED: OCTOBER 1, 1961

1. Mark VII-A - Mark V-B (Inner-Fuel)

- a. The Contractor shall manufacture and furnish to the Commission Mark VII-A and Mark V-B slugs at monthly tonnage rates as follows:

<u>PERIOD</u>	<u>MARK VII-A</u>	<u>MARK V-B</u> (Integral Rib)
October	80	8
November	80	8
December	80	8
January	40	17
February	40	17
March	40	17

b. Mark V-B (Inner Ribless)

The Contractor shall manufacture and furnish to the Commission a total of 680 irradiated quality Mark V-B inner ribless pieces in accordance with the following:

October, 1961 - 220 pieces
 November, 1961 - 220 pieces
 December, 1961 - 240 pieces

2. Mark V-B (Outer-Fuel)

The Contractor shall maintain its Mark V-B outer-fuel element facilities in ready standby which shall include such minimum token operation as required to maintain capability. It is understood that minimum token operation will not exceed an average production of approximately 100 pieces per month.

3. Thorium

The Contractor shall conduct a thorium program, using its best efforts, toward the manufacture and canning of 1320 thorium slugs (560 physics test pieces and 760 reactor acceptable) approximately 6.5 inches long

*ap. 4A + 10 A
 destroyed 7/27/66*

and of the Mark VII-A cross section. The program shall include the preparation of specifications and operating procedures for canning thorium elements and the preparation of the core materials including all necessary research, development, machining, canning, and data accumulation.

4. Program Development

The Contractor shall conduct the following process improvement and development programs:

a. Mark V-B Element Development

The Contractor shall conduct a Mark V-B fuel element development program for the purposes of achieving costs savings in the manufacture of Mark V-B elements. The program shall include necessary tooling and equipment to produce Mark V-B elements using new techniques, variations of fin and finless pieces and necessary development to assure that new elements meet required specifications.

b. Nondestructive Testing

In connection with the above programs, the Contractor shall conduct a development and testing program on nondestructive testing equipment. The program shall include development of a process and equipment capable of properly determining and classifying grain size, developments to determine sub-surface nickel eutetic by either eddy current or ultrasonics, and the development of techniques necessary to prove out nondestructive testing equipment.

5. Du Pont Tooling

The Contractor shall perform work in connection with the Du Pont Tooling Program as authorized by the Contracting Officer in accordance with the Commission's letter to the Contractor of April 4, 1961, attached hereto as Exhibit I.

B

On or before March 31, 1962, the Commission shall notify the Contractor in writing of the scope of work to be performed by the Contractor during the period April 1, 1962, through September 30, 1962. The amount of fixed fee for such scope of work shall be mutually agreed upon, and failure to agree thereon shall be deemed to be a dispute as to a question of fact and shall be determined in accordance with the General Provision of this Agreement entitled DISPUTES.

EXHIBIT I
APPENDIX "B"
CONTRACT AT(30-1)-1293

April 4, 1961

Mr. D. B. Metz
Manufacturing Manager
Sylcor Division
Sylvania Electric Products Inc.
Post Office Box 35
Hicksville, Long Island, New York

Dear Mr. Metz:

For several years Sylcor has been fabricating tooling items needed by Du Pont in establishing canning lines at the Savannah River Plant. In the past, these tooling orders have been treated as scope changes to Contract AT(30-1)-1293.

The SRP program has now reached the point where the orders for tooling consist mainly of small items and of relatively small dollar value. In order to minimize the administrative burdens associated with processing these orders, discussions have been held between members of our respective staffs and it has been agreed that with respect to all tooling orders placed by the Savannah River Operations Office in the future, Sylcor will fabricate the items required upon receipt of authorization from SROO, under and in accordance with the terms and provisions of Contract AT(30-1)-1293. Such orders will be performed within the limits of existing financial plans and on a no-additional-fee basis. It is understood, however, that it is not the intention of the Commission or Sylcor to include hereunder tooling orders which would require an increase in Sylcor's work forces or adversely affect the other work programs approved under the contract.

If this letter correctly states your understanding of the matter, please signify your acceptance by signing in the space provided and return two signed copies to this office.

Sincerely yours,

/s/ R. C. Blair

R. C. Blair
Manager

ACCEPTED

SYLCOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.

By: /s/ D. B. Metz

Title: Manufacturing Manager

Date: April 21, 1961

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

AGREEMENT ADDING CERTAIN WORK TO CONTRACT NO. AT(30-1)-1293
BETWEEN THE UNITED STATES OF AMERICA
AS REPRESENTED BY THE UNITED STATES ATOMIC ENERGY COMMISSION
[OR NAME OF SPONSOR, IF APPLICABLE]
AND SYLVANIA ELECTRIC PRODUCTS INC.

1. This Agreement between Sylvania Electric Products Inc. (the "Contractor"), and the United States Atomic Energy Commission represented by _____ (the "Commission"), [or name of Sponsor, if applicable], adds the following work under paragraph 2 of Article I of the above-identified contract:

DESCRIPTION OF WORK

2. The fixed fee for the work added hereby is \$ _____, payable as follows:
3. \$ _____ has been obligated [allocated, in case of Sponsor] for the work added hereby. Payment of all costs and the fixed fee shall be made by _____.
4. Except as follows, all of the provisions of said Contract are applicable with respect to the work added hereby provided that any exceptions set forth below shall be binding upon the Commission as well as the Contractor and the Sponsor as if the exceptions were specifically incorporated in Contract No. AT(30-1)-1293.
5. This Agreement is effective as of _____.

UNITED STATES ATOMIC ENERGY COMMISSION
[or name of Sponsor, if applicable]

BY _____

TITLE _____

SYLVANIA ELECTRIC PRODUCTS INC.

BY _____

TITLE _____

[In case of Sponsor Agreement,
use following Approval]

APPROVED:

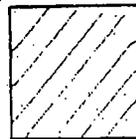
Name

Title

PARKING FIELD #1

Parking Field #3

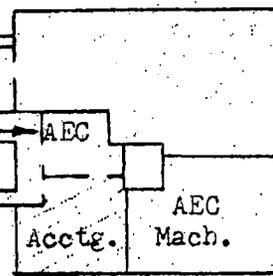
Commercial Production



Bldg. #9 Storage

Stores

Cafeteria



AEC

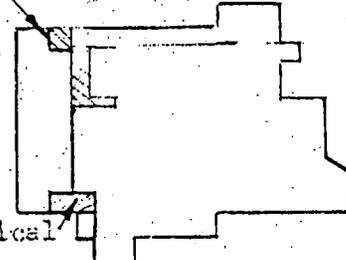
Acctg.

AEC Mach.



Bldg. #8 Burning

Security



Medical

Bldg. #1 AEC Production

Bldg. #5 Guard House

Storage



Personnel

Bldg. #3

PARKING FIELD #2



Bldg. #6 Oil House

Bldg. #7 Pump House



CONTRACT AT (30-1) 1293
MODIFICATION NO. 21
APPENDIX "D"
REVISED OCTOBER 1, 1961

LAND AND BUILDINGS
SYLOR DIV. SYLVANIA ELEC. PROD. INC.
CANTLAQUE ROAD
HICKSVILLE, NEW YORK

Rec. Ship.

Storage

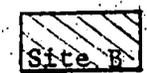
AEC

Purch.

Bldg. #4 Commercial Production

Site A

AEC



Site B

Commercial & Other

APPENDIX "E"

GENERAL PROVISIONS FOR CONTRACT AT(30-1)-1293

BETWEEN

SYLVANIA ELECTRIC PRODUCTS, INC.,
AND THE U. S. ATOMIC ENERGY COMMISSION

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U. S. ATOMIC ENERGY COMMISSION
SAVANNAH RIVER OPERATIONS OFFICE

APPENDIX "E"

GENERAL PROVISIONS FOR CONTRACT AT(30-1)-1293
BETWEEN
SYLVANIA ELECTRIC PRODUCTS, INC.,
AND THE U. S. ATOMIC ENERGY COMMISSION

1. DEFINITIONS

As used in this Contract:

(a) The term "Commission" means the United States Atomic Energy Commission or any duly authorized representative thereof, including the Contracting Officer except for the purpose of deciding an appeal under the General Provision entitled "Disputes."

(b) The term "Contracting Officer" means the person executing this Contract on behalf of the Government, and includes, except as otherwise provided in this Contract, the authorized representative of a Contracting Officer acting within the limits of his authority.

2. ACCOUNTS, RECORDS, AND INSPECTION

(a) Accounts. The Contractor shall maintain a separate and distinct set of accounts, records, documents, and other evidence showing and supporting all allowable costs incurred, revenues or other applicable credits, fixed fee accruals, and the receipt, use, and disposition of all Government property coming into the possession of the Contractor under this Contract. The system of accounts employed by the Contractor shall be satisfactory to the Commission and in accordance with generally accepted accounting principles consistently applied.

(b) Inspection and Audit of Accounts and Records. All books of account and records relating to this Contract shall be subject to inspection and audit by the Commission at all reasonable times, before and during the period of retention provided for in (d) below, and the Contractor shall afford the Commission proper facilities for such inspection and audit.

(c) Audit of Subcontractors' Records. The Contractor also agrees, with respect to any subcontracts (including lump-sum or unit-price subcontracts or purchase orders) where, under the terms of the subcontract, costs incurred are a factor in determining the amount payable to the subcontractor of any tier, to conduct an audit of the costs of the subcontractor in a manner satisfactory to the Commission or to have the audit conducted by the next higher tier subcontractor in a manner satisfactory to the Contractor and the Commission, except when the Commission elects to waive such audit or approves other arrangements for the conduct of the audit.

(d) Disposition of Records. Except as agreed upon by the Government and the Contractor, all financial and cost reports, books of account and supporting documents, and other data evidencing costs allowable and revenues and other applicable credits under this Contract, shall be the property of the Government, and shall be delivered to the Government or otherwise disposed of by the Contractor either as the Contracting Officer may from time to time direct during the progress of the work or in any event as the Contracting Officer shall direct upon completion or termination of this Contract and final audit of all accounts hereunder. All other records in the possession of the Contractor relating to this Contract shall be preserved by the Contractor for a period of six (6) years after settlement of the Contract or otherwise disposed of in such manner as may be agreed upon by the Government and the Contractor.

(e) Reports. The Contractor shall furnish such progress reports and schedules, financial and cost reports, and other reports concerning the work under this Contract as the Contracting Officer may from time to time require.

(f) Inspections. The Commission shall have the right to inspect the work and activities of the Contractor under this Contract at such times and in such manner as it shall deem appropriate.

(g) Subcontracts. The Contractor further agrees to require the inclusion of provisions similar to those in Paragraphs (a) through this Paragraph (g) of this clause in all subcontracts (including lump-sum or unit-price subcontracts or purchase orders) of any tier entered into hereunder where, under the terms of the subcontract, costs incurred are a factor in determining the amount payable to the subcontractor.

3. ASSIGNMENT

Neither this Contract nor any interest therein nor claim thereunder shall be assigned or transferred by the Contractor except as expressly authorized in writing by the Contracting Officer.

4. BUY AMERICAN ACT

(a) In acquiring end products, the Buy American Act (41 U. S. Code 10a-d) provides that the Government give preference to domestic source end products. For the purpose of this clause:

(i) "Components" means those articles, materials, and supplies, which are directly incorporated in the end products;

(ii) "End products" means those articles, materials, and supplies, which are to be acquired under this Contract for public use; and

(iii) A "domestic source end product" means (a) an unmanufactured end product which has been mined or produced in the United States and (b) an end product manufactured in the United States if the cost of the components thereof which are mined, produced, or manufactured in the United States exceeds 50 per cent of the costs of all its components. For the purposes of this Paragraph 4. (a) (iii) (b), components of foreign origin of the same type or kind as the products referred to in Paragraph 4. (ii) or (iii) of this clause shall be treated as components mined, produced, or manufactured in the United States.

(b) The Contractor agrees that there will be used under this Contract (by the Contractor, subcontractor, materialmen, and suppliers) only domestic source end products, except end products

- (i) Which are for use outside the United States;
- (ii) Which the Government determines are not mined, produced, or manufactured in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality;
- (iii) As to which the Commission determines the domestic preference to be inconsistent with the public interest; or
- (iv) As to which the Commission determines the cost to the Government to be unreasonable.

5. CHANGES

(a) Changes and Adjustment of Fee. The Contracting Officer may at any time and without notice to the sureties, if any, issue written directions requiring additional work within the general scope of this Contract or directing the omission of or variation in work covered by this Contract. If any such direction results in a material change in the amount or character of the work described in the Article entitled "Scope of Work," an equitable adjustment of the fixed fee shall be made in accordance with the agreement of the parties and the Contract shall be modified in writing accordingly. Any claim by the Contractor for an adjustment under this General Provision must be asserted in writing within thirty (30) days from the date of receipt by the Contractor of the notification of change unless the Contracting Officer grants a further specific period of time for asserting the claim. A failure to agree on an equitable adjustment under this General Provision shall be deemed to be a dispute within the meaning of the General Provision entitled "Disputes."

(b) Work to Continue. Nothing contained in this clause shall excuse the Contractor from proceeding with the prosecution of the work in accordance with the requirements of any direction hereunder.

6. CLASSIFICATION

In the performance of the work under this Contract, the Contractor shall assign classifications to all documents, material, and equipment originated or generated by the Contractor in accordance with classification guidance furnished to the Contractor by the Commission. Every subcontract and purchase order issued hereunder involving the origination or generation of classified documents, material or equipment, shall include a provision to the effect that in the performance of such subcontract or purchase order the subcontractor or supplier shall assign classifications to all such documents, material and equipment in accordance with classification guidance furnished to such subcontractor or supplied by the Contractor.

7. CONTRACTOR'S ORGANIZATION

(a) Organization Chart. As promptly as possible after the execution of this Contract, the Contractor shall furnish to the Contracting Officer a chart showing the names, duties, and organization of key personnel to be employed in connection with the work, and shall furnish from time to time supplementary information reflecting changes therein.

(b) Supervising representative of contractor. A competent full time resident supervising representative of the Contractor satisfactory to the Contracting Officer shall be in charge of the work at all times.

(c) Control of employees. The Contractor shall be responsible for maintaining satisfactory standards of employee competency, conduct and integrity and shall be responsible for taking such disciplinary action with respect to his employees as may be necessary. In the event the contractor fails to remove any employee from the Contract work whom the Commission deems incompetent, careless or insubordinate, or whose continued employment on the work is deemed by the Commission to be contrary to the public interest, the Government reserves the right to require the Contractor to remove the employee.

8. COVENANT AGAINST CONTINGENT FEES

(a) Warranty - Termination or Deduction for Breach. The Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this Contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty the Government shall have the right to annul this Contract without liability or in its discretion to deduct from the Contract price or consideration,

or otherwise recover the full amount of such commission, percentage, brokerage, or contingent fee.

(b) Subcontracts and Purchase Orders. Unless otherwise authorized by the Contracting Officer in writing the Contractor shall cause provisions similar to the foregoing to be inserted in all subcontracts and purchase orders entered into under this Contract.

9. DISPUTES

(a) Except as otherwise provided in this Contract, any dispute concerning a question of fact arising under this Contract which is not disposed of by agreement shall be decided by the Contracting Officer, who shall reduce his decision to writing and mail or otherwise furnish a copy thereof to the Contractor. The decision of the Contracting Officer shall be final and conclusive unless within thirty (30) days from the date of receipt of such copy, the Contractor mails or otherwise furnishes to the Contracting Officer a written appeal addressed to the Commission. The decision of the Commission or its duly authorized representative for the determination of such appeals shall be final and conclusive unless determined by a court of competent jurisdiction to have been fraudulent, or capricious, or arbitrary, or so grossly erroneous as necessarily to imply bad faith, or not supported by substantial evidence. In connection with any appeal proceeding under this clause, the Contractor shall be afforded an opportunity to be heard and to offer evidence in support of its appeal. Pending final decision of a dispute hereunder, the Contractor shall proceed diligently with the performance of the Contract and in accordance with the Contracting Officer's decision.

(b) This "Disputes" clause does not preclude consideration of law questions in connection with decisions provided for in paragraph (a) above: Provided, That nothing in this Contract shall be construed as making final the decision of any administrative official, representative, or board on a question of law.

10. EXAMINATION OF RECORDS

(a) The Contractor agrees that the Comptroller General of the United States or any of his duly authorized representatives shall have access to and the right to examine any directly pertinent books, documents, papers, and records of the Contractor involving transactions related to this Contract until the expiration of three (3) years after final payment under this Contract unless the Commission authorizes their prior disposition.

(b) The contractor further agrees to include in all his subcontracts hereunder a provision to the effect that the subcontractor agrees that the Comptroller General of the United States or any of

his duly authorized representatives shall, until the expiration of three (3) years after final payment under the subcontract, have access to and the right to examine any directly pertinent books, documents, papers, and records of such subcontractor, involving transactions related to the subcontract, unless the Commission authorizes their prior disposition. The term "subcontract" as used in this clause excludes (i) purchase orders not exceeding \$2,500, and (ii) subcontracts or purchase orders for public utility services at rates established for uniform applicability to the general public.

(c) Nothing in this Contract shall be deemed to preclude an audit by the General Accounting Office of any transaction under this contract.

11. LABOR

(a) Eight-Hour Law of 1912 - Overtime Compensation. This Contract, to the extent that it is of a character specified in the Eight-Hour Law of 1912, as amended (40 U. S. Code 324-326) and is not covered by the Walsh-Healey Public Contracts Act (41 U. S. Code 35-45), is subject to the following provisions and exceptions of said Eight-Hour Law of 1912, as amended, and to all other provisions and exceptions of said Law:

No laborer or mechanic doing any part of the work contemplated by this Contract, in the employ of the Contractor or any subcontractor contracting for any part of said work contemplated, shall be required or permitted to work more than eight hours in any one calendar day upon such work, except upon the condition that compensation is paid to such laborer or mechanic in accordance with the provisions of this clause. The wages of every laborer and mechanic employed by the Contractor or any subcontractor engaged in the performance of this Contract shall be computed on a basic day rate of eight hours per day; and work in excess of eight hours per day is permitted only upon the condition that every such laborer and mechanic shall be compensated for all hours worked in excess of eight hours per day at not less than one and one-half times the basic rate of pay. For each violation of the requirements of this clause a penalty of five dollars shall be imposed for each laborer or mechanic for every calendar day in which such employee is required or permitted to labor more than eight hours upon said work without receiving compensation computed in accordance with this clause, and all penalties thus imposed shall be withheld for the use and benefit of the Government.

(b) Walsh-Healey Public Contracts Act. If this Contract is for the manufacture or furnishing of materials, supplies, articles, or equipment in an amount which exceeds or may exceed \$10,000 and is otherwise subject to the Walsh-Healey Public Contracts Act, as amended (41 U. S. Code 35-45), there are hereby incorporated by reference all representations and stipulations required by said Act and regulations

issued thereunder by the Secretary of Labor, such representations and stipulations being subject to all applicable rulings and interpretations of the Secretary of Labor which are now or may hereafter be in effect.

(c) Convict Labor. In connection with the performance of work under this Contract, the Contractor agrees not to employ any person undergoing sentence of imprisonment at hard labor.

(d) Nondiscrimination in Employment. In connection with the performance of work under this Contract, the Contractor agrees as follows:

- (1) The Contractor will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, creed, color, or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of this nondiscrimination clause.
- (2) The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, creed, color, or national origin.
- (3) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the Agency Contracting Officer, advising the said labor union of workers' representative of the Contractor's commitments under this nondiscrimination clause, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Contractor will comply with all provisions of Executive Order No. 10925 of March 6, 1961, and of the rules, regulations, and relevant orders of the President's Committee on Equal Employment Opportunity created thereby.
- (5) The Contractor will furnish all information and reports required by Executive Order No. 10925 of March 6, 1961, and by the rules, regulations, and orders of the said Committee, or pursuant thereto,

and will permit access to his books, records, and accounts by the Contracting Agency and the Committee for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

- (6) In the event of the Contractor's non-compliance with the nondiscrimination clauses of this Contract or with any of the said rules, regulations, or orders, this Contract may be cancelled in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 10925 of March 6, 1961, and such other sanctions may be imposed and remedies invoked as provided in the said Executive Order or by rule, regulation, or order of the President's Committee on Equal Employment Opportunity, or as otherwise provided by law.
- (7) The Contractor will include the provisions of the foregoing Paragraphs (1) through (6) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the President's Committee on Equal Employment Opportunity issued pursuant to Section 303 of Executive Order No. 10925 of March 6, 1961, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Contracting Agency may direct as a means of enforcing such provisions, including sanctions for non-compliance: Provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

(e) Notice of Labor Disputes. Whenever an actual or potential labor dispute is delaying or threatens to delay the performance of the work, the Contractor shall immediately notify the Contracting Officer in writing. Such notice shall include all relevant information concerning the dispute and its background.

12. LITIGATION AND CLAIMS

(a) Initiation of Litigation. If the Government requires the Contractor to initiate litigation, including proceedings before administrative agencies, in connection with this contract, the Contractor shall proceed with the litigation in good faith as directed from time to time by the Contracting Officer.

(b) Defense and Settlement of Claims. The Contractor shall give the Contracting Officer immediate notice in writing (1) of any action, including any proceeding before an administrative agency, filed against the Contractor arising out of the performance of this Contract, and (2) of any claim against the Contractor the cost and expense of which is allowable under the Article entitled ALLOWABLE COSTS AND FIXED FEE. Except as otherwise directed by the Contracting Officer, in writing, the Contractor shall furnish immediately to the Contracting Officer copies of all pertinent papers received by the Contractor with respect to such action or claim. To the extent not in conflict with any applicable policy of insurance, the Contractor may with the Contracting Officer's approval settle any such action or claim, shall effect at the Contracting Officer's request an assignment and subrogation in favor of the Government of all the Contractor's rights and claims (except those against the Government) arising out of any such action or claim against the Contractor, and if required by the Contracting Officer, shall authorize representatives of the Government to settle or defend any such action or claim and to represent the Contractor in, or to take charge of, any action. If the settlement or defense of an action or claim against the Contractor is undertaken by the Government, the Contractor shall furnish all reasonable assistance in effecting a settlement or asserting a defense. Where an action against the Contractor is not covered by a policy of insurance, the Contractor shall, with the approval of the Contracting Officer, proceed with the defense of the action in good faith; and in such event the defense of the action shall be at the expense of the Government; provided, however, that the Government shall not be liable for such expense to the extent that it would have been compensated for by insurance which was required by law or by the written direction of the Contracting Officer, but which the Contractor failed to secure through its own fault or negligence.

13. OFFICIALS NOT TO BENEFIT

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this Contract, or to any benefit that may arise therefrom; but this clause shall not be construed to extend to this Contract if made with a corporation for its general benefit.

14. RENEGOTIATION

If this Contract is subject to the Renegotiation Act of 1951, as amended, the following provisions shall apply:

(a) This Contract is subject to the Renegotiation Act of 1951, as amended (P.L. 9, 82d Cong., 65 Stat. 7; P.L. 764, 83d Cong., 68 Stat. 1116; P.L. 216, 84th Cong., 69 Stat. 447; P.L. 870, 84th Cong., 70 Stat. 786; 86th Cong., 72 Stat. 1789; 86th Cong., 73 Stat. 210) and shall be deemed to contain all the provisions required by section 104 of said Act.

(b) The Contractor agrees to insert the provisions of this clause, including this paragraph (b), in all subcontracts, as that term is defined in section 103g of the Renegotiation Act of 1951.

15. REQUIRED BONDS AND INSURANCE - EXCLUSIVE OF GOVERNMENT PROPERTY

The Contractor shall procure and maintain such bonds and insurance as are required by law or by the written direction of the Contracting Officer. The terms of any such bond or insurance policy shall be submitted to the Contracting Officer for approval. In view of the provisions of the article entitled "Property" the Contractor shall not procure or maintain for its own protection any insurance (including self-insurance or reserves) covering loss or destruction of or damage to Government-owned property.

16. SAFETY, HEALTH AND FIRE PROTECTION

The Contractor shall take all reasonable precautions in the performance of the work under this Contract to protect the health and safety of employees and of members of the public and to minimize danger from all hazards to life and property, and shall comply with all health, safety, and fire protection regulations and requirements (including reporting requirements) of the Commission. In the event that the Contractor fails to comply with said regulations or requirements of the Commission, the Contracting Officer may, without prejudice to any other legal or contractual rights of the Commission, issue an order stopping all or any part of the work; thereafter a start order for resumption of work may be issued at the discretion of the Contracting Officer. The Contractor shall make no claim for an extension of time or for compensation or damages by reason of or in connection with such work stoppage. Where required by the Commission, due to the proximity of Site B, the Contractor's obligation hereunder shall apply to Site B to the extent that the Commission determines that the health and safety at Site A will be affected.

17. SECURITY

(a) Contractor's Duty to Safeguard Restricted Data and Other Classified Information. In the performance of the work under this Contract the Contractor shall, in accordance with the Commission's security regulations and requirements, be responsible for safeguarding restricted data and other classified matter and protecting against sabotage, espionage, loss and theft, the classified documents, materials, equipment, processes, etc., as well as such other material of high intrinsic or strategic value as may be in the Contractor's possession in connection with performance of work under this Contract. Except as otherwise expressly provided in the specifications the Contractor shall upon completion or termination of this Contract transmit to the Commission any classified matter in the possession of the Contractor or any person under the Contractor's control in connection with performance of this Contract.

(b) Regulations. The Contractor agrees to conform to all security regulations and requirements of the Commission, including without limitation such as may be necessary at Site B to the extent that the security of the work of Site A may be affected.

(c) Definition of Restricted Data. The term "Restricted Data", as used in this clause, means all data concerning (1) design, manufacture, or utilization of atomic weapons; (2) the production of special nuclear material; or (3) the use of special nuclear material in the production of energy, but shall not include data declassified or removed from the Restricted Data category pursuant to Section 142 of the Atomic Energy Act of 1954.

(d) Security Clearance of Personnel. Except as the Commission may authorize, in accordance with the Atomic Energy Act of 1954, the Contractor shall not permit any individual to have access to Restricted Data until the designated investigating agency shall have made an investigation and report to the Commission on the character, associations, and loyalty of such individual and the Commission shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense and security. As used in this paragraph, the term "designated investigating agency" means the United States Civil Service Commission or the Federal Bureau of Investigation, or both, as determined pursuant to the provisions of the Atomic Energy Act of 1954. Access to classified information other than Restricted Data shall not be granted unless the recipient possesses appropriate security clearance.

(e) Criminal Liability. It is understood that disclosure of information relating to the work or services ordered hereunder to any person not entitled to receive it, or failure to safeguard any Restricted Data or any Top Secret, Secret, or Confidential matter that may come to the Contractor or any person under the Contractor's control in connection with work under this Contract, may subject the Contractor, his agents, employees, and subcontractors to criminal liability under the laws of the United States. (See the Atomic Energy Act of 1954, 68 Stat. 919.) (See also Executive Order 10104 of February 1, 1950, 15 F. R. 597.)

(f) Subcontracts and Purchase Orders. Except as otherwise authorized in writing by the Contracting Officer, the Contractor shall insert provisions similar to the foregoing in all subcontracts and purchase orders under this Contract.

18. STATE AND LOCAL TAXES

The Contractor agrees to notify the Contracting Officer of any tax, fee, or charge:

(a) From which exemption is granted by State or local law, or

(b) Which is invalid under any provision of the Constitution of the United States levied or purported to be levied on the Contractor in respect of this Contract and to refrain from paying any such tax, fee, or charge unless otherwise authorized by the Contracting Officer. The Contractor further agrees to take such steps as may be required by the Contracting Officer to cause any such tax, fee, or charge to be paid under protest and, if so directed by the Contracting Officer, to cause to be assigned to the Government or its designee any and all rights to the abatement or refund of any such tax, fee, or charge, or to permit the Government to join with the Contractor in any proceedings for the recovery thereof or to sue for recovery in the Contractor's name.

The Government shall save the Contractor harmless from penalties and interest incurred through compliance with this clause.

19. USE OF CONCERNS IN LABOR SURPLUS AREAS

It is the policy of the Government to place supply contracts with suppliers who will perform such contracts substantially in areas of current labor surplus where this can be done at prices no higher than are obtainable elsewhere. The Contractor agrees to use its best efforts to place its subcontracts in accordance with this policy to the extent consistent with the efficient performance of this Contract. In complying with the foregoing, the Contractor, in placing its subcontracts, shall observe the following order of preference:

(a) small business concerns located in labor surplus areas;

(b) other concerns located in labor surplus areas;

(c) small business concerns not located in labor surplus areas; and

(d) any other concerns.

20. UTILIZATION OF SMALL BUSINESS CONCERNS

(a) It is the policy of the Government as declared by the Congress that a fair proportion of the purchases and contracts for supplies and services for the Government be placed with small business concerns.

(b) The Contractor agrees to accomplish the maximum amount of subcontracting to small business concerns that the Contractor finds to be consistent with the efficient performance of this Contract.

21. PERMITS

Except as otherwise directed by the Contracting Officer, the Contractor shall procure all necessary permits or licenses and abide by all applicable laws, regulations, and ordinances of the United States and of the State, territory, and political subdivision in which the work under this Contract is performed.

22. PURCHASES FROM CONTRACTOR-CONTROLLED SOURCES

(a) All solicitation of competitive bids for equipment, materials and supplies of the kind and character manufactured or sold by the divisions, departments, or affiliates of the Contractor, all evaluation thereof, and all awards shall be made solely by the Contracting Officer, unless otherwise authorized by the Contracting Officer. In all such cases in which the Contractor has design responsibility, the Contractor shall prepare proper specifications, drawings, and such other data as may be necessary, on a basis which will permit fair and open competition and orderly and timely procurement with relation to the work.

(b) The Contractor may procure on a negotiated basis, subject to the limitations in this paragraph and subparagraph (1) or (2) as applicable, materials, supplies, equipment, or services manufactured or sold by the Contractor's divisions, departments, or affiliates from such divisions, departments or affiliates; provided, however, that unless otherwise authorized by the Contracting Officer, no such procurement shall be made by the Contractor without prior written approval of the Contracting Officer.

(1) Standard commercial articles and standard supplies (of contractor-controlled sources, other than those manufactured or produced within the contracting component) which have published unit prices of less than one hundred dollars (\$100), or such higher amount as may be approved by the Contracting Officer, may be transferred and charged at amounts not in excess of (i) the net sales price concurrently charged the most favored nonaffiliated customer for such articles in the same quantities, or (ii) the lowest net sales price at which equivalent articles are available from other sources, whichever is lower in price without further negotiation as to unit price. If the Contractor does not meet this requirement, any excess cost occasioned thereby is unallowable. The Contracting Officer may require use of the equivalent articles available from other sources at a lower price or the solicitation

Sylvania Electric Products, Inc.
Contract No. AT(30-1)-1293
Appendix "E"

of competitive bids from other suppliers of such articles. "Standard commercial articles" are those produced by the Contractor in the normal course of business, carried in stock or previously manufactured on a production basis, and having catalog item numbers and prices; "Standard supplies" are those carried in stock for use in normal operation.

- (2) All other articles produced or services performed by contractor-controlled sources shall be provided on the basis of allowable cost without additional fee, and subject to the terms of this Contract; provided, however, that if mutually agreed, they may be furnished at fixed prices fixed at the outset; provided further, that any such fixed prices shall be negotiated on the basis of estimated allowable costs under this Contract, without profit.

~~SECRET~~

DEPARTMENT OF ENERGY - YANAMAR RIVER DECLASSIFICATION REVIEW

1st Review Date: 4/10/63
 Authority: AEC ADD
 Name: [Signature]
 2nd Review Date: 4/10/63
 Authority: AEC
 Name: [Signature]

Determination (Circle Number)
 1. Classification Unchanged
 2. Classification changed to:
 3. Classification Cancelled.
 4. Other: CG-NRP-2 9-00

AC:RAMcP:ac

UNCLASSIFIED

JAN 12 1962

Mr. D. B. Metz, Manufacturing Manager
 Sylvania Division
 Sylvania Electric Products Inc.
 Hicksville, L. I., New York

Document No. SR-A-125
 This document consists of 2 pages
 No. 1 of 9 Copies, Series A

Dear Mr. Metz:

Reference is made to Appendix "B" to Modification No. 29 under Contract AT(30-1)-1193 and the following correspondence:

- Commission letter of November 20, 1961, from R. C. Blair to D. B. Metz
- Sylvania letter of December 8, 1961, from D. B. Metz to R. C. Blair
- Commission teletype of December 11, 1961, from R. C. Blair to D. B. Metz
- Sylvania letter of December 18, 1961, from D. B. Metz to R. C. Blair
- Sylvania letter of January 2, 1962, from W. R. Manders to R. C. Blair

The above-referenced documents cover requested scope of work changes subsequent to Modification No. 29 to the contract. Since the changes in these documents represent both increases and decreases in the scope of work and revisions to original requests, it is considered desirable that the revised estimated cost for the work during the period December 1, 1961, through March 31, 1962, be consolidated under one document.

The production levels for the Mark VII-A and Mark V-B programs for the period December 1961 through March 1962 are established as follows:

UNCLASSIFIED	Mark V-B	Mark VII-A
December	10	89
January	10	89
February	10	103
March	10	103

Confirming prior discussions between members of our respective staffs, you are authorized to proceed with the performance of the work as outlined above and requested to submit to this office your revised proposal covering the period December 1961 through March 1962. Your proposal should include an estimated cost schedule (similar to the schedule previously submitted in your December 8 proposal) of all programs authorized during the period

DESIGNATION	Contracts	Admin	OAC	TSP	BVF	Managing Office
NAME	[Signature]	[Signature]	[Signature]	[Signature]	[Signature]	[Signature]
DATE	1/10/62				1/11/62	1/10/62

~~SECRET~~

Mr. B. B. Metz

- 2 -

JAN 12 1962

December 1, 1961, through March 31, 1962, together with a revised fee calculation. It is understood that the effective date for the scope of work changes covered herein is December 1, 1961.

Your immediate consideration of this matter is requested. It is desirable that your proposal reach this office by January 24, 1962.

Sincerely yours,

(Signed) H. L. Kuhn for R. C. Blair
K. C. Blair
Manager

Distribution:
1A & 2A - Addresses
3A - Manager's File
4A - R&P Division
5A - Office of Chief Counsel
6A - T&P Division
7A - Contracts
8A - Admin. Div. Rdg. File
9A - S200 Reading File

~~SECRET~~

USDOE 017478

SPONSORED TASK NO. CH-4
MODIFICATION NO. 9

CONTRACT AT-(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

THIS MODIFICATION, entered into as of the 26th day of February, 1962, by and between the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter called the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC., SYLCOR DIVISION (hereinafter called the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the "Agreement"), such agreement having been entered into on July 1, 1959, and having been modified heretofore by Modifications 1 - 8; and

WHEREAS, the parties hereto desire to modify said agreement further as herein provided;

NOW, THEREFORE, the parties hereto agree that the Agreement, as heretofore modified, is hereby modified further in the following particulars, but in no others:

The subparagraph added to Paragraph 1, Description of Work, by Modification No. 8, is hereby modified as follows:

In the seventh line of said subparagraph, immediately following the date "September 13, 1961", insert the following words: "and in accordance with the classified letter dated February 1, 1962, from C. L. Karl, Manager of the Commission's Cincinnati Area Office, to the Contractor and Contractor's letter dated February 2, 1962."

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Box H-178-18

Except as otherwise provided in this modification, all the provisions of the Agreement as heretofore modified or supplemented shall remain in full force and effect.

UNITED STATES OF AMERICA

BY: UNITED STATES ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

BY: *R. G. Humphries*
R. G. Humphries

TITLE: Director, Contract Division, OROO

WITNESSES:

Grace Green
Hicksville, N.Y.
(Address)

Barbara Ann Zito
Hicksville, N.Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.
SYLCOR DIVISION

BY: *D. B. Metz*
D. B. Metz

TITLE: Manufacturing Manager
SYLCOR DIVISION

SPONSORED TASK NO. CH-4
MODIFICATION NO. 10

CONTRACT AT-(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

THIS MODIFICATION, entered into as of the 28th day of March, 1962, by and between the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter called the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC., SYLCOR DIVISION (hereinafter called the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the "Agreement"), such Agreement having been entered into on July 1, 1959, and having been modified heretofore by Modifications 1 - 9; and

WHEREAS, the parties hereto desire to modify said Agreement further as herein provided;

NOW, THEREFORE, the parties hereto agree that the Agreement, as heretofore modified, is hereby modified further in the following particulars; but in no others:

1. The following new subparagraph is added to Paragraph 1., Description of Work:

"During the period April 1, 1962, through September 30, 1962, the Contractor shall proceed with the final machining of semi-finished Mark VII-A cores as heretofore provided in the Agreement and in accordance with the classified letter dated February 1, 1962, from C. L. Karl, Manager of the Commission's Cincinnati Area Office to the Contractor and Contractor's letter dated March 8, 1962, which letters are hereby incorporated herein by reference."

2. The fixed-fee specified in Paragraph 3. is hereby increased by \$8,120.00 as a result of the work added hereby.

3. The completion date of the work stated in Paragraph 4. is changed to September 30, 1962.

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Oak Ridge Contra
Files
Box H-178-18

4. The amount obligated by Paragraph 5. is increased by \$143,460.00 as a result of the work added thereby. The revised amount of the Agreement is now as follows:

	<u>Estimated Cost</u>	<u>Fixed Fee</u>	<u>Total</u>
Obligated thru Modification No. 9	\$ 980,122.00	\$60,634.00	\$1,040,756.00
This Modification No. 10	<u>135,340.00</u>	<u>8,120.00</u>	<u>143,460.00</u>
	\$1,115,462.00	\$68,754.00	\$1,184,216.00

Except as otherwise provided in this modification, all the provisions of the Agreement as heretofore modified or supplemented shall remain in full force and effect.

UNITED STATES OF AMERICA

BY: UNITED STATES ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

BY: *R. G. Humphries*
R. G. Humphries

TITLE: Director, Contract Division, ORGO

WITNESSES:

M. Lee
Hillsville, Va
(Address)

Grace Barden
Hillsville, Va
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.
SYLOR DIVISION

BY: *D. B. Metz*
D. B. Metz

TITLE: Manufacturing Manager

A

This document consists of 2 pages.
No. 1 of 2 copies. Series A

3

WSRC DECLASSIFICATION REVIEW	
1st Review Date: 4/28/64	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: R. L. Collins	2. Classification Changed To:
2nd Review Date: 4/28/64	
Authority: ADD	<input checked="" type="checkbox"/> 3. Classification Cancelled
Name: RWH	4. Other: C & T M P 2 9/64

SR-A-129

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED APRIL 1, 1962, UNDER
MODIFICATION NO. 31

As provided for in paragraph 1 of Article I of Modification 29 of Contract At(30-1)-1293, this Appendix "B" describes the scope of work to be performed by the Contractor for the period April 1, 1962, through September 30, 1962.

1. Mark VII-A - Mark V-B (Inner Fuel)

- a. The Contractor shall manufacture and furnish to the Commission Mark VII-A and Mark V-B slugs at monthly tonnages and/or piece rates as follows:

PERIOD	MARK VII-A (Tons)	MARK V-B (Pieces)	
		(Integral Rib)	(Ribless)
April	105	-	3,660
May	105	-	3,660
June	105	-	3,660
July	84	3,300	-
August	84	-	3,300
September	84	-	3,300

2. Mark V-B (Outer-Fuel)

The Contractor shall maintain its Mark V-B outer-fuel element facilities in ready standby which shall include such minimum token operation as required to maintain capability. It is understood that minimum token operation will not exceed an average production of approximately 100 pieces per month.

3. Thorium

The Contractor shall conduct a thorium program, using its best efforts, toward the manufacture and canning of 22 tons of Mark VII-T slugs, 14 tons of which are to be delivered to the Commission by September 1, 1962. The remaining eight tons shall be delivered as directed by the Commission. The program shall include the completion of specifications and operating procedures for canning thorium elements and the preparation of core materials including all necessary research, development, machining, canning and data accumulation.

4. Program Development

a. The Contractor shall conduct a Mark V-B fuel element development program for the purposes of achieving cost savings in the manufacture of Mark V-B elements. The program shall include necessary tooling and equipment to produce Mark V-B elements using new techniques, variation of fin and finless pieces and necessary development to assure that new elements meet required specifications.

b. Nondestructive Testing

In connection with the above programs, the Contractor shall conduct a development and testing program on nondestructive testing equipment. The program shall include development of a process and equipment capable of properly determining and classifying grain size, developments to determine subsurface nickel eutetic by either eddy current or ultrasonics, and the development of techniques necessary to prove out nondestructive testing equipment.

5. Du Pont Tooling

The Contractor shall furnish all materials, services and supplies necessary to perform all work authorized by the Commission in furtherance of the Du Pont Tooling Program.

B

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office
FINDINGS AND DETERMINATION

AUTHORIZATION FOR MODIFICATION OF COST-PLUS-FIXED-FEE CONTRACT

SYLCOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.
Contract No. AT(30-1)-1293
Modification No. 30

The Atomic Energy Commission proposes to modify its cost-plus-fixed-fee contract with Sylcor Division, Sylvania Electric Products Inc. to revise the scope of work to be performed by the Contractor during the period January 1, 1962, through March 31, 1962, and to provide an appropriate adjustment in estimated cost and fixed fee for work performed during the period October 1, 1961, through December 31, 1961. The total estimated cost of the work under the contract during this period is reduced by the amount of \$182,616 and the total fixed fee is reduced by \$3,000.

I hereby find that a modification to the cost-plus-fixed-fee type contract is necessary for the following reasons:

1. Specifications for the production of metal units are not sufficiently definitive to permit entering an immediate unit-price arrangement.
2. Program requirements are subject to immediate change.
3. Continuous process development is required.
4. The adjustments in the estimated cost and fixed fee under this modification are considered to be reasonable.
5. The revised total fixed fee of \$98,460 averages six per cent (6%) of the estimated cost fee base and is considered fair. The fee was arrived at as a result of negotiations between the parties and is within the AEC fee curve limits.

Upon the basis of the findings set forth above, I hereby determine that it is impracticable to secure services of the kind and quality desired without the use of a cost-plus-fixed-fee Supplemental Agreement, and I hereby authorize the use of said Supplemental Agreement.

By: H. L. Kilburn
Title: Dep. Mgr., SROO
Date: 4-5-62

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 30
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO Amend the scope of work and revise the
estimated cost and fixed fee.

EFFECTIVE DATE December 1, 1961

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>SROO</u>	<u>NYOO</u>	<u>TOTAL</u>
Previous Direct Cost (Modification No. 29)	\$17,706,045	\$3,951,805	\$21,657,850
This Modification (Net Decrease)	<u>(179,616)</u>	<u>-</u>	<u>(179,616)</u>
New Total Direct Cost	\$17,526,429	\$3,951,805	\$21,478,234
Previous Fixed Fee (Modification No. 29)	\$ 1,019,949	\$ 172,150	\$ 1,192,099
This Modification (Net Decrease)	<u>(3,000)</u>	<u>-</u>	<u>(3,000)</u>
New Total Fixed Fee	\$ 1,016,949	\$ 172,150	\$ 1,189,099
Total Revised Cost and Fee	<u>\$18,543,378</u>	<u>\$4,123,955</u>	<u>\$22,667,333</u>
Total Obligated February 28, 1962	<u>\$18,543,378</u>	<u>\$4,123,955</u>	<u>\$22,667,333</u>

A. E. C. FILE COPY

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 30
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into this 5th day of April, 1962, effective December 1, 1962, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December, 1951, the Government and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Government involving the use and occupancy of the land and buildings of the Contractor on Cantiague Road in Hicksville, Long Island, New York; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended:

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Paragraph 1. of ARTICLE I - SCOPE OF WORK, is revised to read as follows:

"1. Beginning October 1, 1961, the Contract shall proceed with the machining, manufacture, canning, testing, inspection, and delivery of metal and alloy slugs to the Commission and perform other services as required by the Commission, all in accordance with the classified Appendix "B," as amended, attached hereto and made a part hereof."

2. Paragraph 1., Estimate of Cost and Fixed Fee, of ARTICLE IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$21,478,234 exclusive of the Contractor's fixed fee. The Contractor's fixed fee, as set forth in paragraph 2., Article V, of the Contract is \$1,189,099. The estimated cost of the work, as described in paragraph 1. of the article entitled, SCOPE OF THE WORK, for the period October 1, 1961, to March 31, 1962, is \$1,865,224, exclusive of the Contractor's fixed fee of \$98,460."

Modification No. 30
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

3. In paragraph 2., Obligation of Funds, of ARTICLE IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, delete the figure "\$22,849,949" and substitute therefor the figure "\$22,667,333."
4. In subparagraph (b) of paragraph 2., Fixed Fee, of ARTICLE V - ALLOWABLE COST AND FIXED FEE, delete the figure "\$101,460" and substitute therefor the figure "\$98,460."
5. Subparagraph (b) of paragraph 2., Payment of Fixed Fee, of ARTICLE VI - PAYMENTS, is revised to read as follows:

"(b) For the period October 1, 1961, through March 31, 1962, ninety percent (90%) of the fixed fee of \$98,460 shall become due and payable in monthly installments of \$15,219 for the period October through December, 1961, and \$14,319 for the period January through March, 1962."
6. Appendix "B," Modification No. 29, Contract AT(30-1)-1293 is revised as of December 1, 1961, and is attached hereto and made a part hereof.
7. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION
BY: W. L. Kilburn
TITLE: Deputy Manager Savannah River Operations Office

WV
BPC
am
1/1
2/5
JK

WITNESSES:
Isaac Soden
Hicksville, ny
(Address)

Barbara Ann Zito
Hicksville, N. Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
BY: D. B. Metz
TITLE: Manufacturing Manager Sylvania Division

Modification No. 30
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

I, J. M. Tooker, certify that I am ASST. SECRETARY
of Sylvania Electric Products Inc., named above; that D. B. METZ,
who signed this Agreement on behalf of said corporation, was then MFG. MGR.
ILLINOIS DIV. of said corporation; and that this Agreement was duly signed
for and in behalf of said corporation by authority of its governing body and
within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 29TH day of MARCH, 1962

By: John D. ...

CORPORATE SEAL

Extra copies

STATE OF NEW YORK }
COUNTY OF WARREN } AFFIDAVIT

I, D. Boyd Metz, being duly sworn, deposes and says that:

I am the Manufacturing Manager of the Syloer Division of Sylvania Electric Products Inc. The manufacturing facilities of the Syloer Division are located at Cantiague Road, Hicksville, New York. Sylvania Electric Products Inc., and its predecessors, for several years has had a contract, Contract AT(30-1) - 1293, with the Atomic Energy Commission, Savannah River Operations Office, for the manufacture of certain nuclear fuel elements at its plant located on Cantiague Road, Hicksville, New York. As Manufacturing Manager of the Syloer Division I am familiar with the aforementioned contractual relationship between Syloer and the Atomic Energy Commission.

Under the aforementioned Contract AT(30-1) - 1293, title to property furnished at the expense of the Atomic Energy Commission shall remain in the United States of America. Certain property listed by the Board of Assessors of Warren County, New York, in the 1961 - 62 assessment under Section No. 11, Block C, Lot No. 80 (formerly Lot No. 132 subsequently changed to Lot No. 732), as being the property of Sylvania Electric Products Inc., is not the property of Sylvania but rather is owned by the United States of America under the terms of the aforementioned contract. The property listed as a pump house, assessed

value of \$1,106.00; the storage tank, assessed value of \$1,750.00; and the sprinkler system, assessed value of \$4,947.00, in each instance was constructed in 1961 and at the expense of the Atomic Energy Commission and thus are the property of the Government.

D. Lloyd Metz

Subscribed and sworn to
before me this _____
day of May, 1962

A

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office
FINDINGS AND DETERMINATION

AUTHORIZATION FOR MODIFICATION OF COST-PLUS-FIXED-FEE CONTRACT

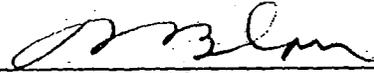
SYLOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.
Contract No. AT(30-1)-1293
Modification No. 31

The Atomic Energy Commission proposed to modify its cost-plus-fixed-fee contract with Sylcor Division, Sylvania Electric Products Inc. to define the scope of work to be performed by the Contractor during the period April 1 through September 30, 1962. The total estimated cost of the work under the Contract during this period is \$1,828,791 of which \$101,691 represents the fixed fee.

I hereby find that a modification to the cost-plus-fixed-fee type contract is necessary for the following reasons:

1. Specifications for the production of metal units are not sufficiently definitive to permit entering an immediate unit-price arrangement.
2. Program requirements are subject to immediate change.
3. Continuous process development is required.
4. The estimated costs under this modification are considered to be reasonable.
5. The proposed fixed fee of \$101,691 averages six per cent of the estimated cost fee base, is within the AEC fee curve limits, and is considered fair and equitable.

Upon the basis of the findings set forth above, I hereby determine that it is impracticable to secure services of the kind and quality desired without the use of a cost-plus-fixed-fee Supplemental Agreement, and I hereby authorize the use of said Supplemental Agreement.

By: 
R. C. Blair, Manager
Title: Savannah River Operations Office
Date: MAY 10 1962

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 31
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO Amend the scope of work and revise the
estimated cost and fixed fee.

EFFECTIVE DATE April 1, 1962

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>SROO</u>	<u>NYOO</u>	<u>TOTAL</u>
Previous Direct Cost (Modification No. 30)	\$17,526,429	\$3,951,805	\$21,478,234
This Modification (Net Increase)	<u>1,717,918</u>	<u>-0-</u>	<u>1,717,918</u>
New Total Direct Cost	<u>\$19,244,347</u>	<u>\$3,951,805</u>	<u>\$23,196,152</u>
Previous Fixed Fee (Modification No. 30)	\$ 1,016,949	\$ 172,150	\$ 1,189,099
This Modification (Net Increase)	<u>101,691</u>	<u>-0-</u>	<u>101,691</u>
New Total Fixed Fee	<u>\$ 1,118,640</u>	<u>\$ 172,150</u>	<u>\$ 1,290,790</u>
Total Estimated Cost and Fixed Fee	<u>\$20,362,987</u>	<u>\$4,123,955</u>	<u>\$24,486,942</u>
Total Amount Obligated as of April 1, 1962			<u>\$24,486,942</u>

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 31
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into this 31st day of May, 1962, effective April 1, 1962, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government"), as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December, 1951, the Government and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Government involving the use and occupancy of the land and buildings of the Contractor on Cantiague Road in Hicksville, Long Island, New York; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and certain terms and conditions as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended:

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Appendix "B" Modification No. 29, Contract AT(30-1)-1293 is revised as of April 1, 1962, and is attached hereto and made a part hereof.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of ARTICLE IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS, AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$23,196,152, exclusive of the Contractor's fixed fee. The Contractor's fixed fee, as set forth in paragraph 2., Article V, of the Contract is \$1,290,790. The estimated cost of the work, as described in paragraph 1. of the Article, entitled, SCOPE OF WORK, for the period April 1, 1962, to September 30, 1962, is \$1,727,100, exclusive of the Contractor's fixed fee of \$101,691."
3. In paragraph 2., Obligation of Funds, of ARTICLE IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, delete the figure, "\$22,667,333" and substitute therefor the figure "\$24,486,942."

Modification No. 31
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. The following new subparagraph (c) is added to paragraph 2., Fixed Fee, of ARTICLE V - ALLOWABLE COST AND FIXED FEE:

"(c) The fixed fee applicable to work performed during the period April 1, 1962, to September 30, 1962, is \$101,691."

5. The following new subparagraph (c) is added to paragraph 2., Payment of Fixed Fee, of ARTICLE VI - PAYMENTS:

"(c) For the period April 1, 1962, through September 30, 1962, ninety per cent (90%) of the fixed fee of \$101,691 shall become due and payable in monthly installments of \$15,254."

6. Paragraphs 1. and 2. of Article IX - PATENTS, are revised to read as follows:

"1. Whenever any invention or discovery is made or conceived by the Contractor or its employees in the course of or under this Agreement, the Contractor shall furnish the Commission with complete information thereon; and the Commission shall have the sole power to determine whether or not and where a patent application shall be filed, and to determine the disposition of the title and rights under any application or patent that may result; provided, however, that with respect to such inventions or discoveries made or conceived in the course of, or under, the terms of paragraph 1. of Article I, the Contractor, in any event, shall retain at least a nonexclusive, irrevocable, royalty-free license under said invention, discovery, application, or patent, such license being limited to the manufacture, use and sale for purposes other than use in the production or utilization of special nuclear material or atomic energy. Subject to the license retained by the Contractor, as provided in this Article, the judgment of the Commission on these matters shall be accepted as final; and the Contractor, for itself and for its employees, agrees that the inventor or inventors will execute all documents and do all things necessary or proper to carry out the judgment of the Commission.

"2. No claim for pecuniary award or compensation under the provisions of the Atomic Energy Acts of 1946 and 1954 shall be asserted by the Contractor or its employees with respect to any invention or discovery made or conceived in the course of or under this Agreement."

Modification No. 31
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

8. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION
BY: [Signature]
R. C. Blair, Manager
TITLE: Savannah River Operations Office

[Handwritten initials and marks on the right margin]

WITNESSES:
[Signature]
Hicksville Ny
(Address)

[Signature]
Hicksville N.Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
BY: [Signature]
D. B. Metz
TITLE: Manufacturing Manager
Sylcor Division

I, J. M. Tackors, certify that I am Asst. Supervisor of Sylvania Electric Products Inc., named above; that D. B. Metz who signed this Agreement on behalf of said corporation, was then MFG. MGR Sylcor Div. of said corporation; and that this Agreement was duly signed for and in behalf of said corporation by authority of its governing body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 16 day of May, 1962.

By: [Signature]

CORPORATE SEAL

Contract No. AT(30-1)-1293 with
Sylvania Electric Products Inc.,
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Monthly Salary Range</u>
Manufacturing Manager	13 J	\$1123 - \$1865
Engineering Manager "B"	12 J	996 - 1670
Engineering Specialist Plant Manager "C" Section Head	11 J	912 - 1520
Manufacturing Superintendent Supervisor of Product Engineering Advanced New Product Development Engineer-Sylcor	10 J	830 - 1375
Advanced Research (or Development) Engineer Engineer-in-Charge Supervisor of Quality Control "A"	9 J	740 - 1230
Equipment Design Specialist General Foreman Project Engineer Research (or Development) Engineer Supervisor of Cost Control "A"	8 J	671 - 1115
Safety Engineer, Sylcor Research Metallographer Senior Engineer "A" Supervisor, Production Control Supervisor, Quality Control "B" Supervisor of Personnel "B"	7 J	612 - 1015

Contract No. AT(30-1)-1293 with
Sylvania Electric Products, Inc.,
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Monthly Salary Range</u>
Contract Administrator Equipment Designer, Sr. Purchasing Agent "A" Senior Engineer "B" Supervisor of Security and Administrative Service Supervisor of Maintenance "B" Toolroom Foreman Foreman Class I Tool Coordinator	6 J	\$ 567 - \$940
Buyer Cost Analyst & Statistician Supervisor of An Accounting Department Section	5 K	544 - .870
Engineer Foreman, Nuclear Products Industrial Engineer Accountant, Senior Technical Foreman II Personnel Assistant Systems and Procedures Analyst, Jr.	4 K	497 - 795

General Wage Increase - effective August 13, 1962
raised maximum of monthly salary ranges

Contract No. AT(30-1)-1293 with
Sylvania Electric Products, Inc.,
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Weekly Salary Range</u>
Master Craftsman	65	\$ 132 - \$ 198
Technical Associate	64	123 - 185
Design-Draftsman	63	115 - 172
Material Requirements Clerk Production Supervisor I Maintenance Supervisor I Technician, Senior Production Scheduling Clerk	62	106 - 162
Draftsman Accountant, Junior Production Supervisor II Safety Inspector Supervisor of Plant Protection	60	95 - 144
Employment Interviewer & Counselor Buyer, Junior Nurse, Senior Technician Stock Clerk Production Control Clerk	59	89 - 135
Payroll Accountant Purchasing Clerk Secretary, Senior	58	84 - 127

Contract No. AT(30-1)-1293 with
Sylvania Electric Products, Inc.,
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Weekly Salary Range</u>
Draftsman, Junior Nurse Production Section Leader	57	\$ 80 - \$ 120
Production Control Clerk, Junior Technician, Junior Secretary Accounting Clerk, Senior Stock Clerk, Junior Statistical Clerk, Senior	56	75 - 111
Clerk, Senior	55	72 - 103
Accounting Clerk, Junior Statistical (Technical) Clerk Telephone Operator II	54	69 - 96
Clerk-Typist	52	69 - 84

General Wage Increase - Effective September 3, 1962
and Change from Monthly to Weekly Salary Ranges

Contract No. AT(30-1)-1293 with
Sylvania Electric Products, Inc.
Sylcor Division
Appendix "A"

SCHEDULE II

HOURLY EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Hourly Salary Range</u>
Tool, Die & Model Maker "A"	LG 12	\$2.97 - \$3.56
Machinist "A" Electrician Specialist Inspector "A" Sheet Metal Specialist	LG 11	2.81 - 3.39
Mechanic "A" Welder "A" Sheet Metal Worker "A" Electrician "A" Welder I Machinist I	LG 10	2.65 - 3.19
Machinist "B" Carpenter Inspector "B"	LG 9	2.50 - 3.00
Mechanic "B" Process & Equipment Checker Assembly & Furnace Brazing Rolling Mill Operator Melter Guard Sergeant Fluoroscope Operator & X-Ray Inspector	LG 8	2.36 - 2.84

Those Listed Below

October 22, 1962

R. A. McFeely, Chief of Contracts
Contracts and Procurement Branch
Administrative Division
APPENDIX "A" - CONTRACT AT(30-1)-1293 WITH SYLVANIA ELECTRIC
PRODUCTS INC.

AC:PS

Attached for your information and file is a copy of Appendix "A"
Contract AT(30-1)-1293 with Sylvania Electric Products Inc.

Attachment:
As stated

Addressees:
E&F Division (4 cys.)
Engineering Division (1 cy.)
Security Division (1 cy.)
T&P Division (2 cys.)
Office of Chief Counsel (1 cy.)
Patent Branch, OCC (1 cy.)
Audit Branch, E&F (1 cy.)
Procurement, C&P Branch, Adm. Div. (1 cy.)

Handwritten notes:
1/25/62
McFeely

USDOE 017239

UNCLASSIFIED

Review of Sylcor Proposal DCF 2150-H for period October 1, 1962 to September 30, 1963. FB-893

Total Cost and Unit Cost

The total costs for Sylcor in FY 1963 using the estimated cost for nine months from proposed DCF 2150, actual July 1962 costs and estimated costs from the amounts approved in April 1962 for August and September are about \$3,407,000 or some \$583,000 more than is included in the current Budget for FY 1963.

The major cause for concern here is the fact that the estimated total cost and unit cost for Mark V-B's increase over the Budget estimate. Our FY 1963 Budget estimates were based on the assumption that a finless Mark V-B element would be produced with a ribbed washer as a spacer. However, the Sylcor proposal is based on the assumption that the major portion of the V-B production will be finned type elements. This increases the unit cost of Sylcor V-B elements \$.69, from \$1.78 to \$2.47. It was our understanding that if we couldn't produce Mark V-B's at about the same costs as Mark VII-A's by the end of FY 1963, we might consider some other type fuel element. Are we to continue with V-B's even though the unit cost is not competitive with VII-A's?

The following are tables comparing proposal costs with the Budget. For (a) Total Budget, (b) Unit Costs Comparison, (c) V-B Unit Costs, (d) Unit Costs V-B with Fins, (e) Unit Cost V-B Finless, (f) FY 1963 Production Comparison.

DEPARTMENT OF ENERGY - ADVANCED RESEARCH AND DEVELOPMENT DIVISION
 1st Review Date 4/8/63
 Authority: BADC UADD
 Name: [Signature]
 2nd Review Date 7/2/63
 Authority: [Signature]
 Name: [Signature]

1. Classification (Circle Number)
 2. Classification (Type) Unchanged
 3. Classification (Type) Changed to:
 4. Other: G.N.P. 2 9.00

TABLE A

	<u>FY 1963 Budget</u>	<u>Sylcor Proposal^{a/}</u>	<u>Variance</u>
<u>Production and Unit Cost</u>			
Mark VII-A Cost	\$1,069,000	\$1,001,000	
Mark VII-A Production Lbs.	960,000	848,000	
Mark VII-A Unit Cost	\$1.11	\$1.18	
Mark V-B Cost	\$1,208,000	\$1,709,000	
Mark V-B Production Lbs.	678,000	692,000	
Mark V-B Unit Cost	\$1.78	\$2.47	
Total Natural Canning	\$2,275,000	\$2,710,000	
Thorium Canning	99,000	165,000	
Development	200,000	240,000	
Equipment	250,000	292,000	
Total	\$2,824,000	\$3,407,000	

a/ Includes nine months from Sylcor Proposal DCF 2150-H plus July 1962 actual plus August and September from Financial Plan approved in April 1962.

UNCLASSIFIED



TABLE B

	Du Pont <u>Outers</u>	Du Pont <u>Finishing</u>	Sylcor <u>Canning</u>	<u>Total</u>
Total Est. Costs	\$2,251,000	\$348,000	\$1,709,000	\$4,308,000
Production Lbs.	1,808,000	692,000	692,000	2,900,000
Unit Cost/Lb.	\$1.40	\$.50 ^{a/}	\$2.47	\$1.87
<hr/>				
FY 1963 Budget	\$1.40	\$.65	\$1.78	\$1.71

a/ Assumed Amount

Actual VII-A FY 1962

Total Costs	\$2,396,000	\$414,000	\$2,103,000	\$4,913,000
Production Lbs.	1,415,000	1,902,000	1,902,000	3,317,000
Unit Cost/Lb.	\$1.69	\$.22	\$1.11	\$1.48

TABLE C

Unit Cost Estimates SCN FY 1963-64

<u>V-B Regular & Pinless</u>	<u>Prod. Lbs.</u>	<u>Cost</u>	<u>Unit Cost/Lb.</u>
* July 1962	4,700	\$ 24,000	\$5.10
August	21,000	64,000	3.05
September	21,000	50,000	2.38
October	20,000	82,900	4.14
November	20,000	79,200	3.96
December	32,000	87,500	2.73
January 1963	74,000	186,200	2.52
February	98,000	219,500	2.23
March	104,000	232,800	2.24
April	100,000	230,100	2.30
May	100,000	239,500	2.33
June	100,000	225,100	2.25
* July	100,000	136,300	1.36
August	100,000	220,500	2.20
September	100,000	212,800	2.13

* Vacation month - Production estimates were not adjusted.

TABLE D

<u>Mark V-B Fine</u>	<u>Production Lbs.</u>	<u>Cost</u>	<u>Unit Cost</u>
July	4,700	\$ 24,000	\$5.11
August	21,000	64,000	3.05
September	21,000	50,000	2.38
October	20,000	73,000	3.65
November	20,000	69,000	3.45
December	20,000	68,000	3.40
January	20,000	87,000	4.35
February	44,000	127,000	2.89
March	60,000	158,000	2.60
April	100,000	224,000	2.24
May	100,000	228,000	2.28
June	100,000	219,000	2.19
July *	100,000	127,000	1.27
August	100,000	214,000	2.14
September	100,000	206,000	2.06

* Vacation month - Production estimates were not adjusted.

TABLE E

<u>Mark V-B Finless</u>	<u>Production</u>	<u>Cost</u>	<u>Unit Cost</u>
July	---		
August	---		
September	---		
October	---	\$ 5,300	---
November	---	5,000	---
December	12,000	14,700	\$1.22
January	54,000	98,000	1.76
February	54,000	88,000	1.63
March	44,000	73,000	1.65
April	---		
May	---		
June	---		
July	---		
August	---		
September	---		

TABLE F

	<u>Mark VII-A Tons</u>		<u>Mark V-B Tons</u>	
	<u>Budget</u>	<u>DCF 2150 SCN</u>	<u>Budget</u>	<u>DCF 2150 SCN</u>
<u>SCN FY 1963 Prod.</u>				
<u>Production</u>				
July *	80	46	11	2
August ^{b/}	80	84	12	10
September ^{b/}	80	84	10	10
October	80	70	10	10
November	80	70	10	10
December	80	70	10	16
January	-0-	-0-	46	37
February	-0-	-0-	46	49
March	-0-	-0-	46	52
April	-0-	-0-	46	50
May	-0-	-0-	46	50
June	-0-	-0-	46	50
	<u>480</u>	<u>424</u>	<u>339</u>	<u>346</u>

* Actual

^{b/} From Letter of March 12, 1962

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Cost Experience Previous Period

For the six months period ending September 30, 1962 it appears that there will be a slight overrun of costs of about \$36,000 out of an estimated total of \$1,829,000. This overrun is primarily in Du Pont tooling. For other activities, the actual vs the estimate is very close as follows.

	<u>Projected Actual</u>	<u>Fin. Plan</u> (In Thousands of Dollars)	<u>Actual Over(Under)</u>
Canning	1,488	1,491	(3)
Development	40	42	(2)
Equipment	183	151	12
Tooling	72	43	29
Fee	<u>102</u>	<u>102</u>	-
Total	<u>1,885</u>	<u>1,829</u>	<u>36</u>

Overhead

Overhead as a percentage of direct labor increases from a rate of 104% in FY 1962 to an estimated 119% for the ensuing period October 1, 1962 to September 30, 1963. Within the overhead accounts, overhead labor shows an actual increase of \$21,000 in FY 1963 over FY 1962; occupancy shows an increase of some \$33,000. An explanation should be provided why overhead cannot be reduced more since total output from Sycor is being reduced about 39%, i.e., total natural uranium slugs produced in FY 1962 - 2,225,000 lbs; estimated natural uranium slugs to be produced in incoming period of 1,368,000. There is no appreciable change in other activities such as equipment, development, etc.

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~~CONFIDENTIAL~~

An Overhead Comparison Follows

	<u>Actual</u> <u>FY 1962</u>	SCN Est. 10/1/62 <u>9/30/63</u> (000 Omitted)	<u>Actual (Over) Under</u>
Overhead Labor	340	361	21
Operating expenses	220	205	(15)
Utilities	56	62	6
Occupancy	63	96	33
Payroll Costs	315	220	(95)
Allow. Dir. Service	77	72	(5)
Allow. Area Service	60	38	(22)
Allow. Security	52	55	3
Expense Transfer	(11)	-	11
Liability Ins.	<u>5</u>	<u>5</u>	<u>-</u>
Total	<u>1,177</u>	<u>1,114</u>	<u>(63)</u>
Direct Labor	1,128	934	(194)
Ratio	104%	119%	-

~~CONFIDENTIAL~~

G & A

Actual G&A for FY 1962 was \$159,000; the estimate for the ensuing period is \$196,000. However, the actual rate of G&A for the last several months has been at an annual rate of about \$200,000. The G&A cost in FY 1961 was \$173,000. It is assumed that corporate changes account for the change in G&A rates. The FY 1962 level was low because of adjustments as a result of audits?

Direct Labor

Direct labor decreased \$194,000 from the FY 1962 level of \$1,128,000 to an estimated \$934,000 in FY 1963. This is a reduction in direct labor of 20% while production decreases about 40%.

Materials

Material costs decrease about \$95,000 from \$937,000 in FY 1962 to a total of \$842,000 in FY 1963. The use of high cost Mark V-B cans in FY 1963 probably accounts for there not being a greater reduction in material costs in FY 1962.

Personnel

Since we are spending large sums of money for development at SRL, it is necessary that we essentially double the development force at Sylcor within the next year? It would also seem possible that a reduction of more than 20 people could be made at Sylcor with a curtailed program.

Conclusions

1. A decision be obtained from Management as to whether or not we will continue with V-B's even though the unit costs exceed VII-A's and even though we have informed Headquarters that we will not use an element if the unit cost exceeds VII-A.
2. If Management accepts the canning of V-B's as outlined in the Sylcor proposal, obtain justification for the following.
 - (1) Justification for discrepancies in overhead.
 - (2) Justification of increased level of development personnel and reasons why personnel cannot decrease more as production is greatly curtailed.

SPONSORED TASK NO. CH-4
MODIFICATION NO. 11

CONTRACT AT-(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

THIS MODIFICATION, entered into as of the 28th day of September, 1962, by and between the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter called the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC., SYLCOR DIVISION (hereinafter called the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the "Agreement"), such Agreement having been entered into on July 1, 1959, and having been modified heretofore by Modifications 1 - 10; and

WHEREAS, the parties hereto desire to modify said Agreement further as herein provided;

NOW, THEREFORE, the parties hereto agree that the Agreement, as heretofore modified, is hereby modified further in the following particulars, but in no others:

1. The following new subparagraph is added to Paragraph 1, Description of Work:

"During the period October 1, 1962, through December 31, 1962, the Contractor, in accordance with the letters dated August 7, 1962, and August 30, 1962, from C. L. Karl, Manager of the Commission's Cincinnati Area Office, to the Contractor, and the Contractor's letter dated September 11, 1962, which letters are hereby incorporated herein by reference, shall proceed with (1) the final machining of semi-finished Mark VII-A cores as heretofore provided in the Agreement and in said letters; (2) the nondestructive testing of the salt-oil heat treated cores supplied by the Contractor under Sponsored Task CH-4; and (3) the close-out activities required to complete Sponsored Task CH-4."

2. The fixed-fee specified in Paragraph 3. is hereby increased by \$3,020.00 as a result of the work added thereby.

SYL00051391

NARA-SE
Series 16-Cats
Ridge Contract
Files
Box H178-18

3. The completion date of the work stated in Paragraph 4. is changed to December 31, 1962.

4. The amount obligated by Paragraph 5. is increased by \$53,360.00 as a result of the work added thereby. The revised amount of the Agreement is now as follows:

	<u>Estimated Cost</u>	<u>Fixed Fee</u>	<u>Total</u>
Obligated thru Modification No. 10	\$1,115,462.00	\$68,754.00	\$1,184,216.00
This Modification No. 11	<u>50,340.00</u>	<u>3,020.00</u>	<u>53,360.00</u>
	<u>\$1,165,802.00</u>	<u>\$71,774.00</u>	<u>\$1,237,576.00</u>

Except as otherwise provided in this modification, all the provisions of the Agreement as heretofore modified or supplemented shall remain in full force and effect.

UNITED STATES OF AMERICA

BY: UNITED STATES ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

BY: R. G. Humphries
R. G. Humphries

TITLE: Director, Contract Division, CRC

WITNESSES:

Grace Gueden
Hicksville NY
(Address)

Max Lee
Hicksville NY
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.
SYLCOR DIVISION

BY: D. B. Metz
D. B. Metz

TITLE: Manufacturing Manager

A

NOV 28 1963

WSRC DECLASSIFICATION REVIEW	
Review Date: 4/28/04	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: RT Collins	2. Classification Changed To:
2nd Review Date: 4/28/04	3. Classification Cancelled
Authority: ADD	4. Other: CG-AMP-2 9/2
Name: [Signature]	

This document consists of 6 pages
No. 1 of 10 copies Series A

SR-A-137

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED OCTOBER 1, 1962, UNDER
MODIFICATION NO. 32

As provided for in paragraph 1 of Article I of Modification No. 29 of Contract AT(30-1)-1293, this Appendix "B" describes the scope of work to be performed by the Contractor for the period October 1, 1962, through September 30, 1963.

1. MARK VII-A - MARK V-B (Inner-Fuel)

- a. The Contractor shall manufacture and furnish to the Commission Mark VII-A and Mark V-B slugs at monthly tonnages as follows:

Period	Mark VII-A (Tons)	Mark V-B (Tons)	
		Integral Rib	Ribless
October 1962	70	10.2	0
November 1962	70	10.2	0
December 1962	70	10.2	6
January 1963	0	27.0	27
February 1963	0	38.0	27
March 1963	0	53.0	22
April 1963	0	71.0	0
May 1963	0	71.0	0
June 1963	0	71.0	0
July 1963	0	48.0	0
August 1963	0	71.0	0
September 1963	0	59.0	0

- b. The Contractor shall produce by November 29, 1962, 50 Mark V-B IF ribbed dummy slugs according to Du Pont Drawing SSK 4-3-222 using unplated stainless steel as the core material rather than uranium.

2. MARK V-B (Outer-Fuel)

Maintain Mark V-B outer-fuel element facilities in ready standby which shall include such minimum token operation as required to maintain capability. It is understood that minimum token operation will not exceed an average production of approximately 100 pieces per month.

Cop 9A & 10A destroyed 7/27/66



3. PROGRAM DEVELOPMENT

a. Mark V-E

Initiate development of a process for canning Mark V-E inner-fuel elements by the hot pressure bonding process. Contractor will conduct a program, using its best efforts, toward the preparation of approximately 1,750 flow test, qualification, and reactor test pieces by June 1, 1963.

The program shall include the preparation of specifications and operating procedures for canning Mark V-E inner fuel elements, including all necessary research development, canning and data accumulation. This program will also include the design of the necessary tooling and equipment for converting to a production program in either hot pressure bonding or hot die sizing process, whichever method is authorized by the Commission.

b. Hot Die Sizing

Continue investigation into the hot die sizing process of cladding Mark V-B inner fuel elements to determine the feasibility and economic advantages, if any, of this method as a production process. Contractor shall design, procure and fabricate such equipment and tooling as is necessary to prepare test pieces, and conduct experimental procedures.

Also, the Contractor shall prepare specifications and operating procedures for canning V-B and Mark V-E inner fuel elements in a production method, if possible. Further, Contractor shall design such tooling and equipment as is necessary to automate or mechanize the process evolved and to adapt this process to the Mark V-E fuel element when authorized by the Commission.

c. Nondestructive Testing

Investigate nondestructive techniques for the inspection of all fuel element cores and slugs processed at the Hicksville plant. The work under this program will consist of the following:

1. Continuation of work on the development of a method to detect the formation of a nickel-uranium eutectic in hot pressure bonded slugs.
2. Design of a positive nondestructive test for accurately distinguishing grain size and orientation of uranium after heat treatment and the incorporation of such test in the production line to permit inspection of 100 per cent of the cores processed.

3. Improvement of a test to measure nickel thickness on cores and the plating quality and the modification of the equipment so that it is applicable to Mark V-E size cores and can be incorporated into an automatic assembly operation.
4. Modification of bond testing equipment to cover Mark V-E size cores and the incorporation of bond testing into the planned automated inspection equipment.
5. Automation of recent developments in the field of nondestructive testing and the extension thereof to development and production programs on V-B, V-E, and hot die sizing.

4. DU PONT TOOLING

The Contractor shall furnish all materials, services and supplies necessary to perform all work authorized by the Commission in furtherance of the Du Pont Tooling Program.

5. THORIUM

The Contractor shall complete the thorium program initiated under Modification No. 31 to the Contract.

~~SECRET~~

Office Memorandum • UNITED STATES GOVERNMENT

TO : J. S. Hopkins, Director
Administrative Division

FROM : *A. Y. Morgan*
A. Y. Morgan, Director
Budget & Finance Division

DATE: OCT 1 1962

UNCLASSIFIED

SUBJECT: REVIEW OF SYLCOR PROPOSAL FOR PERIOD 10/1/62 - 9/30/63
Document No. SR-*FB-894*

FB:MER:mp

This document consists of 7 pages,

We have reviewed Sylcor's proposals for ~~the period October 1, 1962 through September 30, 1963~~ *for the period October 1, 1962 through September 30, 1963* and submit the following comments, cost data, conclusion, and contract modification financial information.

DEPARTMENT OF ENERGY SAVANNAH RIVER PLANT SECURITY ADMIN REVIEW

Determination (Circle Number)

1. Classification Unchanged

2. Classification changed to:

3. Classification Canceled

4. Other: *C: NNP 2*

1st Review Date *4/8/63*

Authority: *ADC* *ADD*

Name: *Bill La...*

2nd Review Date *4/10/63*

Authority: *ADD*

Name: *Morgan*

A. Comments

On September 10, 1962 a proposal was received from Sylcor (DCF 2150-H) covering the operation of the Hicksville Plant (SROO work) for the year October 1, 1962 to September 30, 1963. After review of this proposal, certain questions were raised:

1. Unit and total costs for Mark V-B were considerably higher than had been budgeted. Also, finned canned inner slugs were now contemplated (at Du Pont request) rather than smooth inners with ribbed washers as originally planned.
2. Overhead seemed high in comparison to previous periods.
3. No explanation was provided for variations in overhead accounts (which had been previously requested from Sylcor).

As a result of the above questions, two courses of action were pursued: (a) Du Pont was notified of Sylcor's estimate for V-B's and was requested to inform us if the total V-B Program could be done within the previously budgeted FY 1963 amount; (b) J. J. Wise and N. J. Donahue met with Sylcor, hopefully, to negotiate a downward adjustment of Sylcor's V-B estimate and to obtain adequate justification and explanation for items 2 and 3 above.

We have been informed by Du Pont that they can stay within the FY 1963 total Mark V-B budget even though the Sylcor estimate is higher.

at (30-1)-1293

UNCLASSIFIED

~~RESTRICTED DATA~~

~~document contains Restricted Data...~~
~~in the...~~
~~initial...~~
~~to an unauthorized person...~~

~~SECRET~~

A revised proposal (DCF 2165-H) was received from Sylcor on September 24, 1962 in which a reduction of about 7 per cent was made in their V-B estimates. Also, sufficient justification, explanation, and analysis were provided concerning the overhead adjustments.

B. Cost Data

Table I - Comparison of Sylcor's Revised Estimate with FY 1963 Estimate

	Sylcor Rev. Est. ^{a/}	FY 1963 Budget	Sylcor Over (Under) Budget
Mark VII-A Cost	\$ 870,000	\$1,069,000	\$ (199,000)
Mark V-B Cost	\$1,601,000	\$1,206,000	\$ 395,000
Mark V-B Prod.	720,000	678,000	42,000
Mark V-B Unit Cost	<u>\$2.22</u>	<u>\$1.78</u>	<u>\$.44</u>
Thorium Canning	\$ 162,000	\$ 99,000	\$ 63,000
Development	230,000	200,000	30,000
Equipment	355,000	250,000	105,000
Total	<u>\$3,218,000</u>	<u>\$2,824,000</u>	<u>\$ 394,000</u>

a/ Actual July and August

Table II - Comparison Sylcor Proposals

<u>Item - Activity</u>	<u>Sylcor Proposals</u>		
	<u>Original Sept. 10</u>	<u>Revised Sept. 24</u>	<u>Revised Over(Under)</u>
	(In Thousands of Dollars)		
Mark VII-A	436	438	2
Mark V-B	2,146	2,004	(142)
Process Dev.	290	286	(4)
Tooling (DuPont)	105	103	(2)
Fabr. Equipment	227	222	(5)
Pur. Equipment	129	134	5
Thorium Canning	67	65	(2)
Total	<u>3,400</u>	<u>3,252</u>	<u>(148)</u>

Table II - Comparison Sylcor Proposals (cont.)

<u>Item - Type of Expense</u>	<u>Sylcor Proposals</u>		
	<u>Original</u>	<u>Revised</u>	<u>Revised</u>
	<u>Sept. 10</u>	<u>Sept. 24</u>	<u>Over(Under)</u>
	(In Thousands of Dollars)		
Direct Labor	934	929	(5)
Direct Materials	842	765	(77)
Overhead	1,114	1,053	(61)
Gen. & Admin.	196	194	(2)
Subtotal fee Base	<u>3,086</u>	<u>2,941</u>	<u>(145)</u>
Fee @ 6%	185	177	(8)
Pur. Equipment	129	134	5
Total Costs	<u>3,400</u>	<u>3,252</u>	<u>(148)</u>

The significant change in Sylcor's estimates as evidenced above is: (a) Reduction of \$142,000 in Mark V-B costs which results in a reduction of \$.18 per lb. in unit costs. This reduction in V-B was accomplished through a reduction in material and overhead costs; (b) A savings of \$8,000 in fee is achieved. It is also significant to note that based on a month to month tabulation of V-B unit costs (inner ribbed), there is a reduction from \$3.35 per pound in October 1962 to \$1.77 in September of 1963.

Table III - Comparison of Sylcor's Revised Estimates for the Ensuing Period with Fiscal Year 1962 Actual Costs

<u>Item - Activity</u>	<u>FY 1962</u>	<u>Sept. 24</u>	<u>Proposal</u>
	<u>Actual</u>	<u>1962</u>	<u>Over(Under)</u>
	(In Thousands of Dollars)		
Mark VII-A	\$2,103	\$ 438	\$(1,665)
Mark V-B	707	2,004	1,297
Process Dev.	438	286	(152)
Tooling	108	103	(5)
Fabr. Equipment	173	222	49
Pur. Equipment	105	134	29
Thorium Canning	78	65	(13)
Total	<u>\$3,712</u>	<u>\$3,252</u>	<u>\$ (460)</u>

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Table III - Comparison of Sylcor's Revised Estimates for the
 Ensuing Period with Fiscal Year 1962 Actual Costs
 (cont.)

<u>Item - Type of Expense</u>	<u>FY 1962</u>	<u>Sept. 24 1962</u>	<u>Proposal</u>
	<u>Actual</u>	<u>Proposal</u>	<u>Over(Under) Actual</u>
	(In Thousands of Dollars)		
Direct Labor	\$1,128	\$ 929	\$ (199)
Materials	937	765	(172)
Overhead	1,177=104%	1,053=113%	(124)
	D L	D L	
G & A	159=4.9%	194=7.0%	35
Subtotal	<u>3,401</u>	<u>2,941</u>	<u>(460)</u>
Fee	206=6.06%	177=6.0%	(29)
Pur. Equipment	105	134	29
Total	<u>\$3,712</u>	<u>\$3,252</u>	<u>\$ (460)</u>

Table IV - Production and Unit Costs

<u>Product - Lbs.</u>			
Mark VII-A	2,049,000	420,000	-
Mark V-B	<u>189,000</u>	<u>948,000</u>	-
Total Product	<u>2,238,000</u>	<u>1,368,000</u>	-
Costs VII-A & V-B	\$2,810,000	\$2,442,000	-
Unit Cost/Lb.	<u>\$1.25</u>	<u>\$1.78</u>	-
% Lbs. Decrease	39%		-
% Dollars Decrease	13%		-

Comments on Variations Between Actual 1962 and Estimates 1963

Direct Labor and Materials decrease as a result of decreases in production. However, the unit cost for Direct Materials remains considerably higher in FY 1963 because of the use of more expensive Mark V-B finned cans.

Overhead as a percentage of direct labor increases. This is due to a normal situation wherein the reduction in overhead is not proportionate to reductions in direct costs. Also, the OROO machining work is scheduled to be discontinued after December 1962 and therefore, a greater share of overhead must be borne by the SROO work.

G & A as a percentage of costs increased from 4.9% to 7.0%. One of the main contributing factors to this variation is due to an adjustment in G & A in FY 1962 which resulted in lower than normal costs. The current G & A rate (last six months of FY 1962) is about \$200,000 per year.

Conclusion

Based on the foregoing comments, cost comparisons, and analysis and considering that Sylcor is in a transitional period of production going from Mark VII-A to V-B, during which optimum costs conditions are not expected to exist, we consider the proposal to be reasonable and acceptable.

Financial Information for Contract Modification

Estimated Cost and Fixed Fee

<u>Cost & Fee</u>	<u>Estimated Cost</u>	<u>Fee @ 6%</u>	<u>Total</u>
Mark V-B	\$1,877,500	\$112,644 ^{a/}	\$1,990,144
Mark VII-A	413,100	24,786	437,886
Development	269,600	16,176	285,776
Fabr. Equipment	221,700	13,302	235,002
Tooling	97,400	5,844	103,244
Thorium	61,700	3,702	65,402
Subtotal	<u>2,941,000</u>	<u>176,454</u>	<u>3,117,454</u>
Pur. Equipment	134,546	-	134,546
Total	<u>\$3,075,546</u>	<u>\$176,454</u>	<u>\$3,252,000</u>

a/ Adjusted by \$6 to agree with Sylcor request.

<u>Fee Base</u>	
Salaries	\$ 928,700
Materials	765,400
Overhead	1,053,100
G & A	193,800
	<u>2,941,000</u>
Fee @ 6%	176,460
Less \$6 Adjustment	6
	<u>\$ 176,454</u>

Obligations

The obligations should be increased by \$3,248,617 to a new total of \$27,735,559 computed as follows:

Estimated Cost for Period 10/1/62 - 9/30/63	\$3,252,000
Estimated Overrun Cost Period Ending 9/30/62	19,310
Changes in Stores Inventories FY 1963	(69,417)
Changes in Working Capital FY 1963	(3,276)
Estimated Commitments 9/30/63	50,000
Total Est. Obligations	<u>\$3,248,617</u>

The cover sheet for the contract should be changed to read as follows:

	<u>SROO</u>	<u>NYOO</u>	<u>Total</u>
Previous Direct Cost (Mod. 31)	\$19,244,347	\$3,951,805	\$23,196,152
This Mod.(32) Increase	<u>3,072,163</u>	<u>-0-</u>	<u>3,072,163</u>
New Total Direct Cost	<u>\$22,316,510</u>	<u>\$3,951,805</u>	<u>\$26,268,315</u>
Previous Fixed Fee	1,118,640	172,150	1,290,790
This Mod. Increase	<u>176,454</u>	<u>-0-</u>	<u>176,454</u>
New Total Fixed Fee	<u>\$ 1,295,094</u>	<u>\$ 172,150</u>	<u>\$ 1,467,244</u>
Total Estimated Cost & Fixed Fee	<u>\$23,611,604</u>	<u>\$4,123,955</u>	<u>\$27,735,559</u>
Total Amount Obligated October 1, 1962			<u>\$27,735,559</u>

Contract articles should be changed to read as follows:

Article IV, paragraphs 1 and 2 should read:

1. Estimate of Cost and Fixed Fee - The presently estimated cost of the work under this contract is \$26,268,315 exclusive of the contractor's fixed fee. The contractor's fixed fee, as set forth in paragraph 2, Article V, of this contract, is \$1,467,244. The estimated cost of the work, as described in paragraph 1 of the Article entitled Scope of Work for the period October 1, 1962 to September 30, 1963, is \$3,075,546 exclusive of the contractor's fixed fee of \$176,454.

~~SECRET~~
~~FROM~~

J. S. Hopkins

- 7 -

OCT 1 1962

2. Obligation of Funds - The amount presently obligated by the Government with respect to this contract is \$27,735,559. The amount of obligation under this contract may be increased unilaterally by the Commission by written notice to the contractor and may be decreased by written agreement of the parties (whether or not by formal modification of this contract).

Add a new sub-paragraph (d) to paragraph 2 of Article V - Allowable Costs and Fixed Fee:

(d) The fixed fee appreciable to the work performed during the period October 1, 1962 to September 30, 1963 is \$176,454.

Add a new sub-paragraph (d) to paragraph 20 of Article VI - Payments.

(d) For the period October 1, 1962 through September 30, 1963 ninety per cent (90%) of the fixed fee of \$176,454 shall become due and payable in monthly installments of \$13,234.

cc: J. J. Wise, Mgr's Office
Hobbs/Donahue, T&P
R. A. Messick, B&F

~~SECRET~~
~~FROM~~

USDOE 017449

~~SECRET~~
Office Memorandum • UNITED STATES GOVERNMENT

TO : J. S. Hopkins, Director
Administrative Division

FROM : *Neil Johnson for*
A. Y. Morgan, Director
Budget & Finance Division

DATE: JAN 10 1963

UNCLASSIFIED

SUBJECT: REVIEW OF SYLCOR PROPOSAL OF DCF 2223-H DECEMBER 20, 1962
Document No. SR-*EB-911*

FB:MER:mp

This document consists of 4 pages.

We have reviewed Sylcor's revised proposal for the period ~~October 1,~~
1962 thru September 30, 1963 and submit the following as a sup-
plement, and where necessary, replacement for the information included
in my memo to you of October 1, 1962.

I. Comparison of Estimates:

	September 24 DCF 2165	December 20 DCF 2223	Change + or -
Mark V-B	\$ 2,003,446	\$2,452,435	\$448,989
Mark VII-A	437,886	448,486	10,600
Thorium	65,402	64,024	(1,378)
Development	285,776	298,496	12,720
Fabricated Equipment	221,700	185,300	(36,400)
Tooling	103,244	79,924	(23,320)
Purchased Equipment	134,546	167,200	32,654
Total Costs	<u>\$ 3,252,000</u>	<u>\$3,695,865</u>	<u>\$443,865</u>

II. Comments on Estimates:

Mark V-B

The increase in estimated costs of Mark V-B is the result of increases in production as follows:

Estimated Costs	\$ 2,003,446	\$2,452,435	\$448,989
Estimated Prod. Lbs.	949,600	1,243,200	293,600
Unit Cost	\$2.11	\$1.97	\$(.14)

As indicated above, Mark V-B production increases about 30% for the period with an increase in costs of only 22% which results in a decrease in unit cost.

Sylcor's estimated unit cost at the end of the contract period for Mark V-B is about \$1.85 per pound.

Mark VII-A

During the period October thru December 1962, Sylcor was scheduled to produce about 210 tons of Mark VII-A slugs. The question was raised in our review as to whether or not the

~~RESTRICTED DATA~~
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~~This document contains Restricted Data as defined in the Atomic Energy Act of 1954. The transmission or the disclosure of its contents in any manner to an unauthorized person is prohibited.~~

USDOE 017873

DEPARTMENT OF ENERGY GOVERNMENT OFFICIALS ONLY
 Deposition (Circle Number)
 1. Classification Unchanged
 2. Classification Changed to:
 3. Classification Canceled
 4. Other: CG-NMP-2 9-00

1st Review Date 4/3/63
 Authority: OAC UADD
 Name: *Neil Johnson*
 2nd Review Date 7/3/63
 Authority: ABO
 Name: *Neil Johnson*

at (30-1)-125

210 tons produced during this period included any rework slugs which had been canned in a previous period and consequently a fee had been paid. N. J. Donahue assured us that none of the slugs canned in this contract period are reworked slugs from the previous contract period.

III. Redistribution of Costs

The increase in cost in Mark VII-A and changes in other activities except Mark V-B represent a redistribution of costs and are not considered scope changes. Excluding Mark V-B there is an actual savings to the Commission in fee as a result of the redistribution of costs in other activities as follows:

<u>Change in Fee Base</u>	
Fabricated Equipment	\$(36,400)
Du Pont Tooling	(22,000)
Thorium	1,300
Mark VII-A	10,000
Development	<u>12,000</u>
Net Change	<u>\$(35,100)</u> Fee @ 6% \$2,106

Overhead

Overhead costs in the revised estimates are about 101% of direct labor compared to an approved rate of 114% in the September 24 proposal. The "going rate" for overhead is about \$1,128,000 for the Hicksville Plant including about \$9,000 per month for OROO work. The "going rate" is about 104% of direct labor. The OROO work was discontinued after December 1962. Therefore, a slight increase in the overhead rate is expected for the SROO work during the period. The total revised estimated overhead for the period for SROO work is \$1,090,000.

The other items of cost are considered to be reasonable.

The following is a comparison of the estimates by type of expense.

~~SECRET~~

J. S. Hopkins

- 3 -

JAN 10 1963

	<u>Sept. 24</u>	<u>Dec. 20</u>	<u>Change + or -</u>
Direct Labor	\$ 928,700	\$1,073,100	\$144,400
Direct Materials	765,400	967,900	202,500
Overhead	1,053,100	1,089,500	36,400
G & A	193,800	198,500	4,700
Adjustments(Rounding)	(90)	(1,240)	(1,150)
Subtotal Fee Base	<u>2,940,910</u>	<u>3,327,760</u>	<u>386,850</u>
Fee @ 6%	176,454	199,665	23,211
Purchased Equipment	134,546	167,200	32,654
Add Back Adj.	90	1,240	1,150
Total Costs	<u>\$3,252,000</u>	<u>\$3,695,865</u>	<u>\$443,865</u>

The unit costs for V-B for direct labor and direct materials are about the same in both proposals.

Conclusion

Based on the above analysis and considering that Sylcor is in a transitional period of production going from Mark VII-A to Mark V-B and the OROO work is being phased out, a condition during which optimum costs are not expected to exist, we consider the proposal to be reasonable and acceptable. Sufficient funds are available in the FY 1963 Financial Plan to finance the increase in work at Sylcor.

Financial Information for Contract Modification (Will replace the comparable information in my October 1, 1962 memo):

Obligations

The obligations in the contract should be increased by \$3,658,104 computed as follows:

Estimated Costs 10/1/62-9/30/63	\$3,695,865
Estimated Underrun thru 9/30/62	(46,620)
Changes in Stores Inventories FY '63	(44,417)
Change in Working Capital FY 1963	3,276
Estimated Commitments 9/30/63	<u>50,000</u>
Total Est. Obligations for Period	<u>\$3,658,104</u>

Cover Sheet for Contract

The cover sheet of the contract should be changed to read as follows:

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USDOE 017875

~~SECRET~~

J. S. Hopkins

- 4 -

JAN 10 1963

	<u>SROO</u>	<u>NYOO</u>	<u>Total</u>
Previous Direct Cost Mod. 31	\$19,244,347	\$3,951,805	\$23,196,152
This Mod.(32) Increase	<u>3,458,439</u>	<u>-0-</u>	<u>3,458,439</u>
New Total Direct Costs	<u>\$22,702,786</u>	<u>\$3,951,805</u>	<u>\$26,654,591</u>
Previous Fixed Fee	\$ 1,118,640	\$ 172,150	\$ 1,290,790
This Mod. Increase	<u>199,665</u>	<u>-0-</u>	<u>199,665</u>
New Total Fixed Fee	<u>\$ 1,318,305</u>	<u>\$ 172,150</u>	<u>\$ 1,490,455</u>
Total Est. Cost and Fixed Fee	<u>\$24,021,091</u>	<u>\$4,123,955</u>	<u>\$28,145,046</u>
Total Obligated 2/1/63			<u>\$28,145,046</u>

Article IV, paragraph 1 and 2 should read:

1. Estimate of Cost and Fixed Fee - The presently estimated cost of the work under this contract is \$26,654,591 exclusive of the contractor's fixed fee. The contractor's fixed fee as set forth in paragraph 2, Article V, of this contract is \$1,490,455. The estimated cost of the work as described in paragraph 1 of the Article entitled Scope of Work for the period October 1, 1962 to September 30, 1963 is \$3,496,200 exclusive of the contractor's fixed fee of \$199,665.
2. Obligation of Funds - The amount presently obligated by the Government with respect to this contract is \$28,145,046. The amount of obligation under this contract may be increased unilaterally by the Commission by written notice to the contractor and may be decreased by agreement of the parties (whether or not by formal modification of this contract).

Add a new sub-paragraph (d) to paragraph 2 of Article V - Allowable Costs and Fixed Fee:

- (d) The fixed fee applicable to the work performed during the period October 1, 1962 to September 30, 1963 is \$199,665.

Add a new sub-paragraph (d) to paragraph 2 of Article VI - Payments:

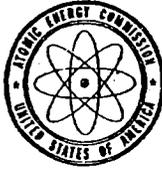
- (d) For the period October 1, 1962 through September 30, 1963, ninety per cent (90%) of the fixed fee of \$199,665 shall become due and payable in monthly installments of \$14,975.

J. J. Wise/Mgr's Office
Hobbs/Donahue, T&P
Messick, B&F
Stark, B&F

CC:

USDOE 017876

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UNITED STATES
ATOMIC ENERGY COMMISSION
WASHINGTON 25, D. C.

DEC 7 1962

938 12/10/62

MEMORANDUM FOR CHAIRMAN SEABORG
COMMISSIONER HAWORTH
COMMISSIONER PALFREY
COMMISSIONER RAMEY
COMMISSIONER WILSON

Acting
THROUGH GENERAL MANAGER *MSF*

SUBJECT: EXTENSION OF CONTRACT AT(30-1)-1293 WITH SYLVANIA ELECTRIC
PRODUCTS, INC.

The purpose of this memorandum is to bring to your attention the proposed extension of Contract No. AT(30-1)-1293 with Sylvania Electric Products, Inc. This contract has been submitted for Headquarters review and approval by the Savannah River Operations Office pursuant to AECPR 9-51.102(1) at my request since total contract costs to date exceed \$10 million and this is the first opportunity under the current AEC policy to have this contract reviewed and brought to the attention of the Commission. The total estimated cost of this proposed modification, including fixed fee, is \$3,248,617 which will bring the total estimated cost, including fee, of the contract to \$27,735,559.

Contract AT(30-1)-1293 was entered into with Sylvania Electric Products, Inc. by the New York Operations Office as a development contract effective December 10, 1951. This contract was transferred from NYOO to SROO effective July 1, 1954. The current scope of the contract provides that the contractor shall proceed with the machining, manufacture, canning, testing, inspection and delivery of metal and alloy slugs to the Commission and perform other services as required by the Commission. The general scope of work performed by Sylvania has been essentially the same since the contract was transferred to the Savannah River Plant for administration. The services of the contractor were originally procured by the Commission by negotiations under a cost-plus-fixed-fee arrangement.

The plant and buildings at the Hicksville, New York, Plant constituting the manufacturing facility are owned by the contractor, and the equipment utilized in the performance of SROO work is owned by the Commission. To relocate this equipment to another contractor's plant or to tool up another contractor's

*DOE - History Division
Sutland Materials - AEC
Accession # 326-76-0006
Job 6540
Box 70*

*F O= M 2- office of contract
Blicy January 1962 - December 1962*

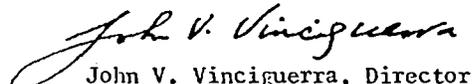
USDOE 017912

plant for production of fuel elements would be extremely costly to the Commission. Sylvania possesses the only known capability outside SRP in the hot-pressed bonding techniques. This coupled with the fact that Sylvania has over a ten-year period of operation developed production know-how, techniques and trained personnel in the manufacturing of fuel elements which would not be possessed or readily available from a new contractor precludes consideration of obtaining a suitable replacement contractor.

The proposed modification will extend the contract term through September 30, 1963, and extend the AEC option to renew the contract annually through September 30, 1967. A 6% fee of \$176,454 on a fee base of \$2,941,000 has been negotiated with the contractor for the period October 1, 1962, through September 30, 1963. Such fee appears reasonable, is in line with fee rates previously paid to Sylvania and is within AEC fee policy.

Therefore, I propose to authorize the extension of this contract through September 30, 1963. At the same time, the terms and conditions of this contract will be up-dated consistent with AECPR requirements.

In addition to the Division of Contracts, the Divisions of Production, Labor Relations, and Industrial Participation and the Offices of the Controller and the General Counsel concur in the proposed extension.


John V. Vinciguerra, Director
Division of Contracts

DEC 26 1962

CONTRACT AT-(30-1)-1293

APPENDIX "C"

WORK UNDER PARAGRAPH 2 OF ARTICLE I

THIS MODIFICATION, entered into as of the 19th day of December, 1962, by and between the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter called the "Commission"), and SYLVANIA ELECTRIC PRODUCTS, INC., SYLOR DIVISION (hereinafter called the "Contractor");

WITNESSETH THAT:

WHEREAS, the Government and the Contractor entered into a certain agreement known and designated as Sponsored Task CH-4 (hereinafter called the "Agreement"), such Agreement having been entered into on July 1, 1959, and having been modified heretofore by Modifications Nos. 1 - 11; and

WHEREAS, the parties hereto desire to modify said Agreement further as herein provided;

NOW, THEREFORE, the parties hereto agree that the Agreement, as heretofore modified, is hereby modified further in the following particulars, but in no others:

1. The following new subparagraph is added to Paragraph 1, Description of Work:

"Notwithstanding the preceding subparagraph, during the period December 1, 1962, through January 31, 1963, the Contractor shall proceed with the final machining of semifinished Mark VII-A cores and the close-out activities required to complete Sponsored Task CH-4, as heretofore provided in the Agreement and in accordance with the Contractor's letter dated November 30, 1962, and the letter dated November 27, 1962, from C. L. Karl, Area Manager of the Commission's Cincinnati Area Office to the Contractor, which letters are hereby incorporated herein by reference."

2. The fixed fee specified in Paragraph 3 is hereby increased by \$1,210.00 as a result of the work added thereby.

3. The completion date of the work stated in Paragraph 4 is changed to January 31, 1963.

NARA -SE
Series 16 - Oak
Ridge Contract
File
Box 4-178-18

NARA 001816

4. The amount obligated by Paragraph 5 is increased by \$21,390.00 as a result of the work added thereby. The revised amount of the Agreement is now as follows:

	<u>Estimated Cost</u>	<u>Fixed Fee</u>	<u>Total</u>
Obligated thru Modification No. 11	\$1,165,802.00	\$71,774.00	\$1,237,576.00
This Modification No. 12	<u>20,180.00</u>	<u>1,210.00</u>	<u>21,390.00</u>
	\$1,185,982.00	\$72,984.00	\$1,258,966.00

Except as otherwise provided in this modification, all the provisions of the Agreement as heretofore modified or supplemented shall remain in full force and effect.

UNITED STATES OF AMERICA

BY: UNITED STATES ATOMIC ENERGY COMMISSION
OAK RIDGE OPERATIONS OFFICE

BY:

R. C. Murphy
R. C. Murphy
TITLE: Director, Contract Division

WITNESSES:

Eric Selden
Richard E. O'Neil
(Address)
Miss [unclear]
W. Charles [unclear]
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.
SYLCOR DIVISION

BY:

D. B. Metz
D. B. Metz
TITLE: Manufacturing Manager

Roland A. Anderson, Assistant General
Counsel for Patents, Germantown

January 18, 1963

Randall O. Erdley, Chief
Savannah River Patent Group

MODIFICATION NO. 12 TO SPONSORED TASK NO. CH-4 UNDER
CONTRACT AT(30-1)-1293

CP:RGE:cm

This is to advise that by the subject modification effective
December 19, 1962 the fixed fee has been increased by
\$1,210.00 from \$71,774.00 to \$72,984.00 and the completion
date of the work has been extended to January 31, 1963.

OFFICE ▶	Patent Br.					
SURNAME ▶	RGE.					
DATE ▶	1-18-63					

File

Those Listed Below

February 12, 1963

R. A. McFeely, Chief of Contracts
Contracts and Procurement Branch
Administrative Division
APPENDIX "A" - CONTRACT AT(30-1)-1293 WITH SYLVANIA ELECTRIC
PRODUCTS INC.

AC:RAF:ps

Attached for your information and file are revised pages 17
and 21 of Appendix "A," Contract AT(30-1)-1293 with Sylvania
Electric Products Inc.

Attachments:
As stated

Addressees:
B&F Division (4 cys.)
Engineering Division (1 cy.)
Security Division (1 cy.)
T&P Division (2 cys.)
Office of Chief Counsel (1 cy.)
Patent Branch, OCC (1 cy.)
Audit Branch, B&F (1 cy.)
Procurement, C&P Branch, Adm. Div. (1 cy.)

Supplemental report...

*Mr. McFeely
Patent Branch
etc.*

SCHEDULE I

SALARIED EMPLOYEES

Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Monthly Salary Range</u>
Contract Administrator Equipment Designer, Sr. Purchasing Agent "A" Senior Engineer "B" Supervisor of Security and Administrative Service Supervisor of Maintenance "B" Toolroom Foreman Foreman Class I Tool Coordinator	6 J	\$ 567 - \$940
Buyer Cost Analyst & Statistician Supervisor of An Accounting Department Section	5 K	544 - 870
Engineer Foreman, Nuclear Products Industrial Engineer Accountant, Senior Technical Foreman II Personnel Assistant Systems and Procedures Analyst, Jr. Equipment Designer	4 K	497 - 795
Cost Accountant	3 K	452 - 725

General Wage Increase - Effective
August 13, 1962, raised maximum of
monthly salary ranges

SCHEDULE II

HOURLY EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Hourly Salary Range</u>
Armed Guard	LG 7	\$2.21 - \$2.66
Armed Courier		
Storekeeper		
Machinist "C"		
Inspector "C"		
Chemical Room Operator		
Machining Operator-CPP		
Sodium Loading Dry Box Operator		
Briquetting Operator		
Heat Treatment Operator		
Hot Pressing Operator-VB		
Welding Operator		
Machining Operator-VB		
Fluoroscope Operator		
Hot Press Operator		
Finishing Operator		
Maintain Chemical Solutions		
Materials Stock Clerk	LG 6	2.09 - 2.50
Mechanic "C"		
Maintain Chemical Solutions		
Canning-Hot Press Operator		
Canning-Assembler		
Die Processing Operator		
Machining Operator-AEC		
Plating Machine Operator		
Fabrication Operator		
Rack Maintenance Man		
Groundskeeper	LG 5	1.97 - 2.35
Trainee, Production		
Maintenance Apprentice	LG 4	1.86 - 2.21
Cafeteria-Dishwasher, Porter	LG 3	1.76 - 2.08
Janitor-Porter		

General Wage Increase - Effective
 September 3, 1962

A

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 32
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO Expand scope of work and amend other
provisions of the Contract.

EFFECTIVE DATE October 1, 1962

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>SROO</u>	<u>NYOO</u>	<u>TOTAL</u>
Previous Direct Cost (Modification No. 31)	\$19,244,347	\$3,951,805	\$23,196,152
This Modification (Net Increase) <u>a/</u>	<u>3,458,439</u>	<u>-0-</u>	<u>3,458,439</u>
New Total Direct Cost	<u>\$22,702,786</u>	<u>\$3,951,805</u>	<u>\$26,654,591</u>
Previous Fixed Fee (Modification No. 31)	\$ 1,118,640	\$ 172,150	\$ 1,290,790
This Modification (Net Increase)	<u>199,665</u>	<u>-0-</u>	<u>199,665</u>
New Total Fixed Fee	<u>\$ 1,318,305</u>	<u>\$ 172,150</u>	<u>\$ 1,490,455</u>
Total Estimated Cost and Fixed Fee	<u>\$24,021,091</u>	<u>\$4,123,955</u>	<u>\$28,145,046</u>
Total Amount Obligated as of February 1, 1963			<u>\$28,145,046</u>

a/ Includes an adjustment for underruns through September 30, 1962, and for estimated changes in stores inventories and working capital in Fiscal Year 1963.

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 32
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into this 18th day of February, 1963, effective October 1, 1962, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December, 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission involving the use and occupancy of the land and buildings of the Contractor on Cantiague Road in Hicksville, Long Island, New York; and,

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to provide for the performance by the Contractor of an additional scope of work and to amend certain provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended:

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. In paragraph 1., Principal Site, of Article II - SITE OF WORK, delete the date "October 1, 1961," appearing in the seventh line and substitute therefor the date "October 1, 1962."
2. In paragraph 1., Term, of Article III - TERM, EXPIRATION AND TERMINATION, delete the date "September 30, 1962," appearing in the second line and the date "September 30, 1964," appearing in the fifth and sixth lines, and substitute therefor the dates "September 30, 1963," and "September 30, 1967," respectively.
3. In subparagraph (d)(i) of paragraph 2., Termination, of Article III - TERM, EXPIRATION AND TERMINATION, substitute the date "September 30, 1967," for the date "September 30, 1964." Delete line 14 reading "except as otherwise provided in paragraph 1. of Article XIX - INDEMNITY," in its entirety.
4. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS, AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$26,654,591, exclusive of the Contractor's fixed fee. The Contractor's fixed fee, as set forth in paragraph 2., Article V, of the Contract is \$1,490,455. The estimated cost of the work, as described in paragraph 1. of the Article entitled SCOPE OF WORK for the period October 1, 1962, to September 30, 1963, is \$3,496,200, exclusive of the Contractor's fixed fee of \$199,665."
5. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, delete the figure "\$24,486,942" and substitute therefor the figure "\$28,145,046."

6. The following new subparagraph (d) is added to paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE:

"(d) The fixed fee applicable to work performed during the period October 1, 1962, to September 30, 1963, is \$199,665."
7. The following new subparagraph (d) is added to paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS:

"(d) For the period October 1, 1962, through September 30, 1963, ninety per cent (90%) of the fixed fee of \$199,665 shall become due and payable in monthly installments of \$14,975."
8. In subparagraph (c) of paragraph 10., of Article VII - GOVERNMENT PROPERTY, delete the date "September 30, 1964," appearing in the fourth line and substitute therefor the date "September 30, 1967."
9. Article XIX - INDEMNITY is deleted in its entirety.
10. Article VII - EXECUTIVE COMPENSATION, of Appendix "A" of the Contract is amended to read as follows:

"VII. EXECUTIVE COMPENSATION

"Executive compensation including bonuses and other remunerations will, for cost-reimbursement purposes, not exceed a pro rata share of the equivalent of \$30,000 per annum for any one executive. The determination of allowable related costs based on compensations paid will also be determined on the basis of the foregoing limitation. Prior Commission approval shall be obtained on the establishment or adjustment of single rates or rate ranges and on individual salary actions which would result in total annual compensation, including incentive compensation, of \$25,000 or more."

11. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, as amended, is further amended as of October 1, 1962, and is attached hereto and made a part hereof.
12. Appendix "E," General Provisions, to Contract AT(30-1)-1293 is amended to include the following new provisions:

"23. SMALL BUSINESS SUBCONTRACTING PROGRAM

"(a) The Contractor agrees to establish and conduct a small business subcontracting program which will enable small business concerns to be considered fairly as subcontractors and suppliers under this Contract. In this connection, the Contractor shall:

- (1) Designate a liaison officer who will (i) maintain liaison with the Government on small business matters, (ii) supervise compliance with the Utilization of Small Business

Concerns clause, and (iii) administer the Contractor's "Small Business Subcontracting Program."

- (2) Provide adequate and timely consideration of the potentialities of small business concerns in all "make-or-buy" decisions.
- (3) Assure that small business concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of small business concerns. Where the Contractor's lists of potential small business subcontractors are excessively long, reasonable effort shall be made to give all such small business concerns an opportunity to compete over a period of time.
- (4) Maintain records showing (i) whether each prospective subcontractor is a small business concern, (ii) procedures which have been adopted to comply with the policies set forth in this clause, and (iii) with respect to the letting of any subcontract (including purchase orders) exceeding \$10,000, information substantially as follows:
 - (A) Whether the award went to large or small business.
 - (B) Whether less than three or more than two small business concerns were solicited.
 - (C) The reason for non-solicitation of small business if such was the case.
 - (D) The reason for small business failure to receive the award if such was the case when small business was solicited.

The records maintained in accordance with (iii) above may be in such form as the Contractor may determine, and the information shall be summarized quarterly and submitted by the purchasing department of each individual plant or division to the Contractor's cognizant small business liaison officer. Such quarterly summaries will be considered to be management records only and need not be submitted routinely to the Government; however, records maintained pursuant to this clause will be kept available for review.

- (5) Notify the Contracting Officer before soliciting bids or quotations on any subcontract (including purchase orders) in excess of \$10,000 if (i) no small business concern is to

Modification No. 32
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

be solicited, and (ii) the Contracting Officer's consent to the subcontract (or ratification) is required by a "Subcontracts" clause in this Contract. Such notice will state the Contractor's reasons for non-solicitation of small business concerns, and will be given as early in the procurement cycle as possible so that the Contracting Officer may give SBA timely notice to permit SBA a reasonable period to suggest potentially qualified small business concerns through the Contracting Officer. In no case will the procurement action be held up when to do so would, in the Contractor's judgment, delay performance under the Contract.

- (6) Include the Utilization of Small Business Concerns clause in subcontracts which offer substantial small business subcontracting opportunities.
 - (7) Cooperate with the Contracting Officer in any studies and surveys of the Contractor's subcontracting procedures and practices that the Contracting Officer may from time to time conduct.
 - (8) Submit such information on subcontracting to small business concerns as is called for by the Contracting Officer.
- (b) A "small business concern" is a concern that meets the pertinent criteria established by the Small Business Administration and set forth in Section 1-1.701 of the Federal Procurement Regulations.
- (c) The Contractor agrees that, in the event he fails to comply with his contractual obligations concerning the small business subcontracting program, this Contract may be terminated, in whole or in part, for default.
- (d) The Contractor further agrees to insert, in any subcontract hereunder which may exceed \$500,000 and which contains the Utilization of Small Business Concerns clause, provisions which shall conform substantially to the language of this clause, including this paragraph (d), and to notify the Contracting Officer of the names of such subcontractors."

"24. LABOR SURPLUS AREA SUBCONTRACTING PROGRAM

- "(a) The Contractor agrees to establish and conduct a program which will encourage labor surplus area concerns to compete for subcontracts within their capabilities. In this connection, the Contractor shall:

Modification No. 32
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

- (1) Designate a liaison officer who will (i) maintain liaison with duly authorized representatives of the Government on labor surplus area matters, (ii) supervise compliance with the Utilization of Concerns in Labor Surplus Areas clause, and (iii) administer the Contractor's "Labor Surplus Area Subcontracting Program;"
 - (2) Provide adequate and timely consideration of the potentialities of labor surplus area concerns in all "make-or-buy" decisions;
 - (3) Assure that labor surplus area concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of labor surplus area concerns;
 - (4) Maintain records showing procedures which have been adopted to comply with the policies set forth in this clause; and
 - (5) Include the Utilization of Concerns in Labor Surplus Areas clause in subcontracts which offer substantial labor surplus area subcontracting opportunities.
- (b) A "labor surplus area concern" is a concern which will perform, or cause to be performed, a substantial proportion of any contract awarded to it in "Areas of Substantial Labor Surplus" (also called "Areas of Substantial Unemployment"), as designated by the Department of Labor. A concern shall be deemed to perform a substantial proportion of a contract in a labor surplus area if the costs that the concern will incur on account of manufacturing or production performed in persistent or substantial labor surplus areas (by itself or its first-tier subcontractors) amount to more than 50 percent of the price of such contract.
- (c) The Contractor further agrees to insert, in any subcontract hereunder which may exceed \$500,000 and which contains the Utilization of Concerns in Labor Surplus Areas clause, provisions which shall conform substantially to the language of this clause, including this paragraph (c), and to notify the Contracting Officer of the names of such subcontractors."

10. All other terms and conditions of the Contract remain unchanged.

Modification No. 32
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF the parties hereto have executed this Modification as of
the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: [Signature]
R. C. Blair, Manager
TITLE: Savannah River Operations Office

Blair
RCB
SAO
NY

WITNESSES:

Grace Gaden
Hicksville Ny
(Address)
Mildred Bell
Hicksville Ny
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

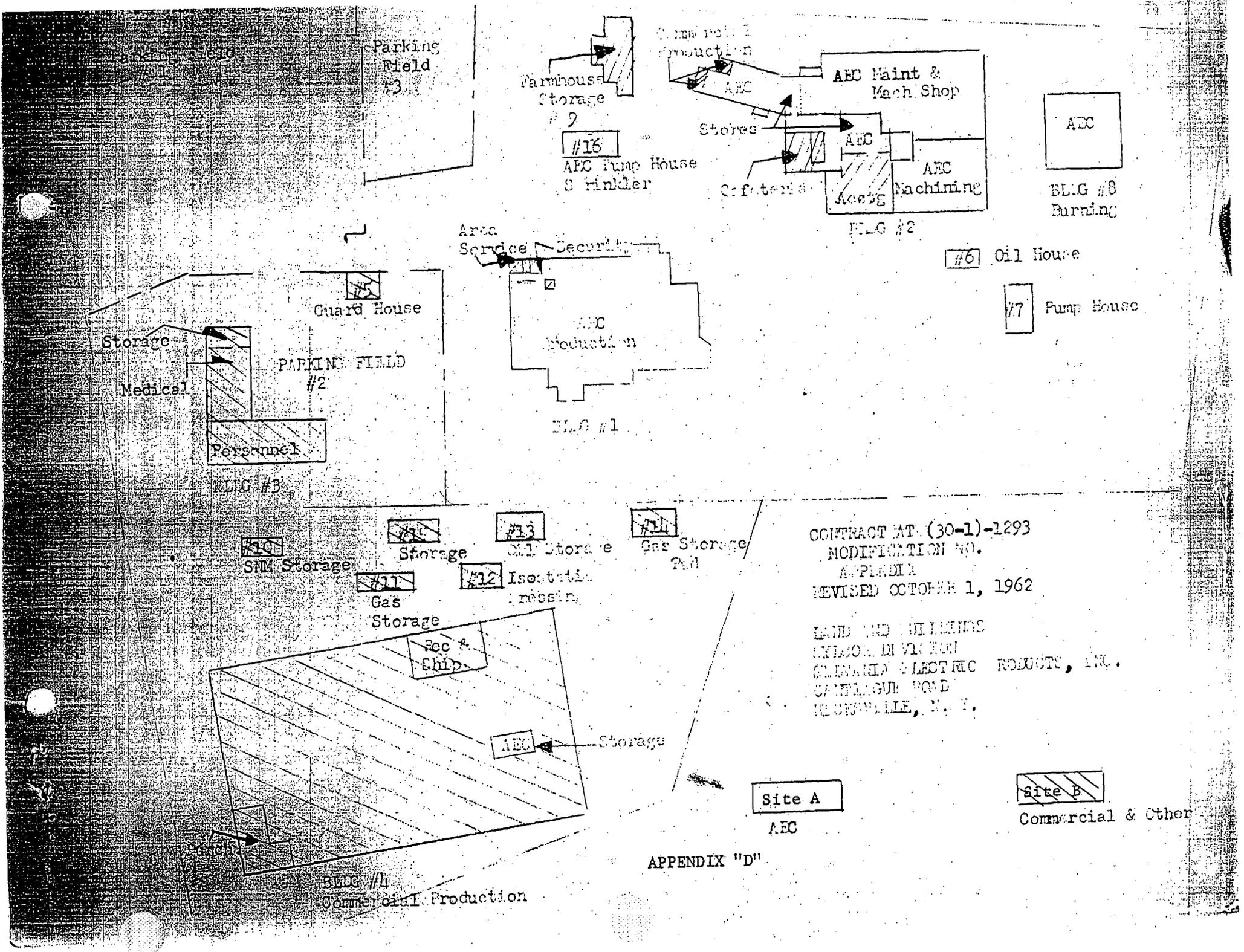
BY: [Signature]
D. B. Metz
TITLE: Manufacturing Manager
Sylcor Division

I, J. M. Toohar, certify that I am ASST. SECRETARY
of Sylvania Electric Products Inc., named above; that D. B. METZ
who signed this Agreement on behalf of said corporation, was then _____
MFG. MGR. SYLCOR DIV. of said corporation, and that this Agreement was
duly signed for and in behalf of said corporation by authority of its governing
body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 4 day of FEB,
1963.

CORPORATE SEAL

[Signature]
J. M. Toohar
Assistant Secretary



CONTRACT AT. (30-1)-1293
 MODIFICATION NO.
 APPENDIX
 REVISED OCTOBER 1, 1962

LAND AND BUILDINGS
 DIVISION
 GEORGIA ELECTRIC PRODUCTS, INC.
 CANTONMENT ROAD
 MARIETTA, N. E.

APPENDIX "D"

Site A
 AEC

Site B
 Commercial & Other

B

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 32

Supplemental Agreement to

Contract No. AT(30-1)-1293

SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into this 18th day of February, 1963, effective October 1, 1962, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December, 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission involving the use and occupancy of the land and buildings of the Contractor on Cantiague Road in Hicksville, Long Island, New York; and,

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to provide for the performance by the Contractor of an additional scope of work and to amend certain provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended:

NOW, THEREFORE, the parties hereto do mutually agree as follows:

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2. In paragraph 1., Term, of Article III - TERM, EXPIRATION AND TERMINATION, delete the date "September 30, 1962," appearing in the second line and the date "September 30, 1964," appearing in the fifth and sixth lines, and substitute therefor the dates "September 30, 1963," and "September 30, 1967," respectively.
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 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$26,654,591, exclusive of the Contractor's fixed fee. The Contractor's fixed fee, as set forth in paragraph 2., Article V, of the Contract is \$1,490,455. The estimated cost of the work, as described in paragraph 1. of the Article entitled SCOPE OF WORK for the period October 1, 1962, to September 30, 1963, is \$3,496,200, exclusive of the Contractor's fixed fee of \$199,665."
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USDOE 017282

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9. Article XIX - INDEMNITY is deleted in its entirety.

10. Article VII - EXECUTIVE COMPENSATION, of Appendix "A" of the Contract is amended to read as follows:

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11. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, as amended, is further amended as of October 1, 1962, and is attached hereto and made a part hereof:

12. Appendix "E," General Provisions, to Contract AT(30-1)-1293 is amended to include the following new provisions:

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"(a) The Contractor agrees to establish and conduct a small business subcontracting program which will enable small business concerns to be considered fairly as subcontractors and suppliers under this Contract. In this connection, the Contractor shall:

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Concerns clause, and (iii) administer the Contractor's "Small Business Subcontracting Program."

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The records maintained in accordance with (iii) above may be in such form as the Contractor may determine, and the information shall be summarized quarterly and submitted by the purchasing department of each individual plant or division to the Contractor's cognizant small business liaison officer. Such quarterly summaries will be considered to be management records only and need not be submitted routinely to the Government; however, records maintained pursuant to this clause will be kept available for review.

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Modification No. 32
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

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- (c) The Contractor agrees that, in the event he fails to comply with his contractual obligations concerning the small business subcontracting program, this Contract may be terminated, in whole or in part, for default.
- (d) The Contractor further agrees to insert, in any subcontract hereunder which may exceed \$500,000 and which contains the Utilization of Small Business Concerns clause, provisions which shall conform substantially to the language of this clause, including this paragraph (d), and to notify the Contracting Officer of the names of such subcontractors."

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Modification No. 32
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

- (1) Designate a liaison officer who will (i) maintain liaison with duly authorized representatives of the Government on labor surplus area matters, (ii) supervise compliance with the Utilization of Concerns in Labor Surplus Areas clause, and (iii) administer the Contractor's "Labor Surplus Area Subcontracting Program;"
 - (2) Provide adequate and timely consideration of the potentialities of labor surplus area concerns in all "make-or-buy" decisions;
 - (3) Assure that labor surplus area concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of labor surplus area concerns;
 - (4) Maintain records showing procedures which have been adopted to comply with the policies set forth in this clause; and
 - (5) Include the Utilization of Concerns in Labor Surplus Areas clause in subcontracts which offer substantial labor surplus area subcontracting opportunities.
- (b) A "labor surplus area concern" is a concern which will perform, or cause to be performed, a substantial proportion of any contract awarded to it in "Areas of Substantial Labor Surplus" (also called "Areas of Substantial Unemployment"), as designated by the Department of Labor. A concern shall be deemed to perform a substantial proportion of a contract in a labor surplus area if the costs that the concern will incur on account of manufacturing or production performed in persistent or substantial labor surplus areas (by itself or its first-tier subcontractors) amount to more than 50 percent of the price of such contract.
- (c) The Contractor further agrees to insert, in any subcontract hereunder which may exceed \$500,000 and which contains the Utilization of Concerns in Labor Surplus Areas clause, provisions which shall conform substantially to the language of this clause, including this paragraph (c), and to notify the Contracting Officer of the names of such subcontractors."

10. All other terms and conditions of the Contract remain unchanged.

Modification No. 32
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: /s/ R. C. Blair

TITLE: Manager, Savannah River Operations
Office

WITNESSES:

SYLVANIA ELECTRIC PRODUCTS INC.

/s/ Grace Golden

BY: /s/ D. B. Metz

Hicksville, New York
(Address)

TITLE: Manufacturing Manager
Sylcor Division

/s/ Milton Boll

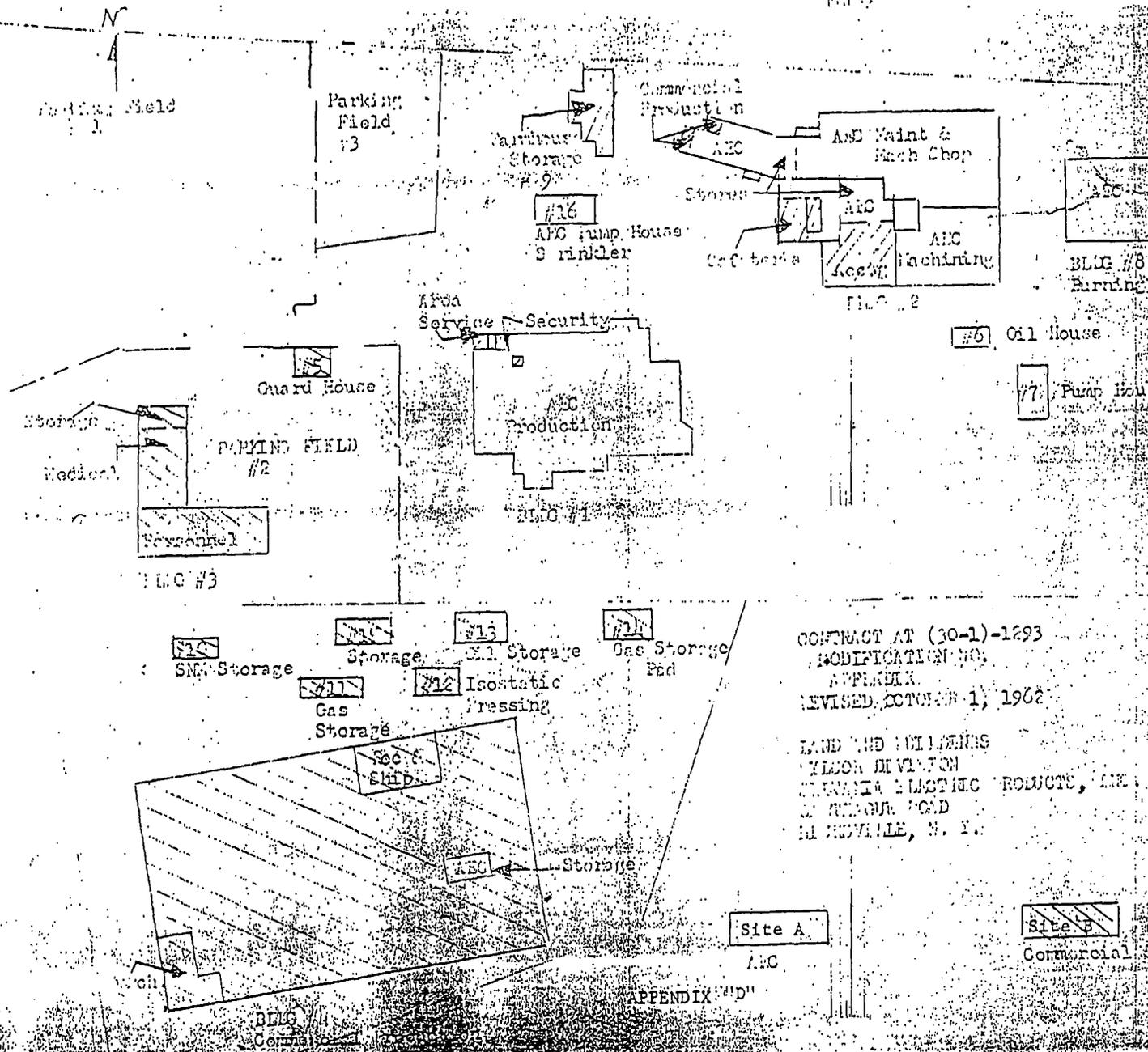
Hicksville, New York
(Address)

I, J. M. Toohar, certify that I am Assistant Secretary of Sylvania Electric Products Inc., named above; that D. B. Metz who signed this Agreement on behalf of said corporation, was then Manufacturing Manager, Sylcor Division of said corporation, and that this Agreement was duly signed for and in behalf of said corporation by authority of its governing body and within the scope of its corporate powers..

WITNESS my hand and seal of said corporation this 4th day of February, 1963.

/s/ J. M. Toohar
Assistant Secretary

CORPORATE SEAL



CONTRACT AT (30-1)-1293
 MODIFICATION NO.
 APPENDIX
 REVISED OCTOBER 1, 1962

LAND AND BUILDINGS
 WILSON DIVISION
 CHEMICAL & PLASTIC PRODUCTS, INC.
 25 HUNTER ROAD
 ELIZABETH, N. J.

UNITED STATES GOVERNMENT

Memorandum

TO : Those Listed Below

DATE: February 19, 1963

FROM : R. A. McFeely, Chief of Contracts
Contracts and Procurement Branch
Administrative Division

SUBJECT: MODIFICATION NO. 32 TO CONTRACT AT(30-1)-1293 WITH
SYLVANIA ELECTRIC PRODUCTS INC.

AC:RAF:ps

Attached for your use are signed and/or conformed copies, as indicated, of the subject modification. Appendix "B" of the modification sets forth the scope of work to be followed and is classified. Therefore, this appendix has been detached from conformed copies for normal distribution purposes.

Attachments:
As stated

Addressees:

- B&F Division (1 signed, 3 conformed)
- O&P Division (1 conformed)
- Engineering Division (1 conformed)
- Security Division (1 conformed)
- T&P Division (2 conformed - including Appendix "B" (1 cy.))
- Office of Chief Counsel (1 conformed - including Appendix "B")
- Patent Branch, OCC (1 conformed - including Appendix "B")
- Audit Branch, B&F (1 conformed)
- Procurement, C&P Branch, Adm. Division (1 conformed)

Document transmitted herewith contains

~~RESTRICTED DATA~~
~~RESTRICTED DATA~~

When separated from enclosures handle
this document as UNCLASSIFIED

~~SECRET~~

UNCLASSIFIED

~~SECRET~~

February 27, 1963

DCF# 2260-H

Mr. R. C. Blair, Manager
U. S. Atomic Energy Commission
Savannah River Operations Office
P. O. Box "A"
Aiken, South Carolina

This document consists of 3 pages.
No. 2 of 4 copies, Series A

Attention: Mr. N. J. Donahue

Gentlemen:

Reference is made to your letter of 2-20-63, (SR-TM-9424). We are pleased to submit the requested proposal covering revisions to the scope of work for the period March 1, 1963 through September 30, 1963.

The new total costs for this period are \$2,319,200, including fee. In addition to the revised production programs, the costs cover continuation of current development programs as detailed in our proposal DCF# 2165-H and additional new work as outlined below.

As authorized by your letter, we have adjusted the production schedules for the Mark V-B IF and Mark V-E IF programs to effectively utilize manpower and equipment and to minimize employee recruiting later in the contract period. By advancing the Mark V-B schedule, we make it possible to initiate Mark V-E production with minimum new employment while retaining trained and experienced personnel.

This proposed Mark V-B IF schedule exceeds the cumulative deliveries required by SR-TM-9424. The Mark V-E IF schedule adjustment is necessitated by the fact of our annual vacation shutdown during July. These schedules (units in tons) follow:

<p>RESTRICTED DATA</p> <p>THIS DOCUMENT CONTAINS RESTRICTED DATA UNLESS INDICATED OTHERWISE IN THE TRANSMITTAL REPRODUCTION OF ITS CONTENTS IN ANY MANNER BY ANY PERSON IS PROHIBITED.</p>	<p>DEPARTMENT OF ENERGY SAVANNAH RIVER DECLASSIFICATION REVIEW</p> <p>1st Review Date: 4/5/83 Authority: EADU/ADD Name: JB Black 2nd Review Date: 4/5/83 Authority: ADP Name: William J. Donahue</p>	<p>Determination (Class Number)</p> <p>1. Classification Unchanged 2. Classification changed to:</p> <p><input checked="" type="checkbox"/> Classification Collected Other: CG-NRP-2 9-00</p>
---	--	---

UNCLASSIFIED

~~SECRET~~

USDOE 017894

~~SECRET~~

USAEC

-3-

February 27, 1963

May we state that we are pleased to submit this proposal for your consideration. We hope you find it satisfactory. We are available to meet with your staff at their convenience should further discussion be desirable.

Very truly yours,

SYLCOR DIVISION
SYLVANIA ELECTRIC PRODUCTS, INC.



D. B. Metz
Manufacturing Manager

DEM/bm

~~SECRET~~

USDOE-017896

A



This document consists of 2 pages
 No. / of copies. *4*

DECLASSIFICATION REVIEW	
1st Review Date: <i>4/28/04</i>	Determination (Circle Number)
Authority: <i>ADD</i>	1. Classification Unchanged
2nd Review Date: <i>4/28/04</i>	2. Classification Changed To:
Name: <i>R. Collins</i>	3. Classification Cancelled
	4. Other: <i>CG-NMP-1 9/00</i>

SR-A-139

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 REVISED MARCH 1, 1963, UNDER
 MODIFICATION NO. 33

The scope of work to be performed by the Contractor during the period October 1, 1962, through September 30, 1963, as set forth by Modification No. 32, is revised to read as follows:

1. MARK VII-A - MARK V-B AND MARK V-E (Inner-Fuel)

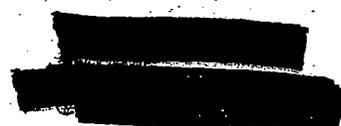
a. The Contractor shall manufacture and furnish to the Commission Mark VII-A, Mark V-B and Mark V-E slugs at monthly tonnages as follows:

	Mark VII-A (Tons)	Mark V-B (Tons)		Mark V-E (Tons) Integral Rib
		Integral Rib	Ribless	
October 1962	70	10.2	0	0
November 1962	70	10.2	0	0
December 1962	70	10.2	6	0
January 1963	0	27.0	27	0
February 1963	0	38.0	27	0
March 1963	0	40.0	22	0
April 1963	0	57.0	0	0
May 1963	0	57.0	0	0
June 1963	0	57.0	0	0
July 1963	0	16.0	0	10
August 1963	0	40.0	0	22
September 1963	0	40.0	0	22

b. The Contractor shall produce by November 29, 196 , 50 Mark V-B IF ribbed dummy slugs according to Du Pont Drawing SSK 4-3-222 using unplated stainless steel as the core material rather than uranium.

2. MARK V-B (Outer-Fuel)

Maintain Mark V-B outer-fuel element facilities in ready standby which shall include such minimum token operation as required to maintain capability. It is understood that minimum token operation will not exceed an average production of approximately 100 pieces per month. This program will be discontinued upon depletion of inventory in March 1963.



3. PROGRAM DEVELOPMENT

a. Mark V-E

Initiate development of a process for canning Mark V-E inner-fuel elements by the hot pressure bonding process. Contractor will conduct a program, using its best efforts, toward preparation of approximately 1,750 flow test, qualification, and reactor test pieces by June 1, 1963.

The program shall include the preparation of specifications and operating procedures for canning Mark V-E inner-fuel elements, including all necessary research development, canning and data accumulation. This program will also include the design of the necessary tooling and equipment for converting to a production program in either hot pressure bonding or hot die sizing process, whichever method is authorized by the Commission.

b. Hot Die Sizing

Continue investigation into the hot die sizing process of cladding Mark V-B inner-fuel elements to determine the feasibility and economic advantages, if any, of this method as a production process. Contractor shall design, procure and fabricate such equipment and tooling as is necessary to prepare test pieces, and conduct experimental procedures.

Also, the Contractor shall prepare specifications and operating procedures for canning V-B and Mark V-E inner-fuel elements in a production method, if possible. Further, Contractor shall design such tooling and equipment as is necessary to automate or mechanize the process evolved and to adapt this process to the Mark V-E fuel element when authorized by the Commission.

c. Nondestructive Testing

Investigate nondestructive techniques for the inspection of all fuel element cores and slugs processed at the Hicksville plant. The work under this program will consist of the following:

1. Continuation of work on the development of a method to detect the formation of a nickel-uranium eutectic in hot pressure bonded slugs.
2. Design of a positive nondestructive test for accurately distinguishing grain size and orientation of uranium after heat treatment and the incorporation of such test in the production line to permit inspection of 100 percent of the cores processed.

[REDACTED]

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED MARCH 1, 1963, UNDER
MODIFICATION NO. 33

3. Improvement of a test to measure nickel thickness on cores and the plating quality and the modification of the equipment so that it is applicable to Mark V-E size cores and can be incorporated into an automatic assembly operation.
4. Modification of bond testing equipment to cover Mark V-E size cores and the incorporation of bond testing into the planned automated inspection equipment.
5. Automation of recent developments in the field of nondestructive testing and the extension thereof to development and production programs on V-B, V-E, and hot die sizing.
6. Conduct preliminary development work on the feasibility of hot pressure bonding Zircaloy-2 cladding to uranium core specimens. Prepare on a best efforts basis, samples of direct zirconium to uranium bonding and samples of zirconium to uranium bonding, with a nickel-aluminum interface.

4. DU PONT TOOLING

The Contractor shall furnish all materials, services and supplies necessary to perform all work authorized by the Commission in furtherance of the Du Pont Tooling Program.

5. THORIUM

Complete the thorium program initiated under Modification No. 31 to the Contract. Strip Al cladding from approximately 2,500 pounds of reject Mark VII-T slugs. Machine and clad approximately 9,500 additional thorium metal slugs for delivery by September 30, 1963.

~~SECRET~~

J. J. Wise, Assistant Manager
for Administration

UNCLASSIFIED MAR 6 1963

A. Y. Morgan, Director
Budget & Finance Division

REVIEW OF SYLCOX PROPOSAL DCF 2260-H

FB-926

FB:MER:ac

This document consists of 22 pages.

No. 3 of 6 copies, Series A

We have reviewed Sylcox's revised proposal for the period March-September 1963 and submit the following comments and recommendation:

Comments and Cost & Manpower Comparisons

The revised proposal in total is \$151,066 more than is currently approved to Sylcox for the period. The net change is as follows:

1. Classification (Circle Number)
 2. Classification (Unchanged)
 3. Classification changed to:
 Classification Changed
 Class: CG-NM-3
 Code: 9,00

1st Review Date: 4/13/63
 Authority: [Signature]
 Name: [Signature]
 2nd Review Date: 4/13/63
 Authority: [Signature]
 Name: [Signature]

Expense Item	DCF-2223-H Currently Approved	DCF-2260-H Revised Proposal	Revised + or (-)
Direct Labor	\$ 617,070	\$ 662,430	\$ 45,360
Direct Materials	581,510	522,000	(59,510)
Overhead	633,590	695,000	61,410
G & A	118,290	119,300	1,010
Fee	116,473	119,369	2,896
Purchased Equipment	101,200	201,100	99,900
Total	<u>\$2,168,133</u>	<u>\$2,319,199</u>	<u>\$ 151,066</u>

Personnel			
Direct Man-Months	1,371	1,454	83
Indirect	154	154	-
Total	<u>1,525</u>	<u>1,608</u>	<u>83</u>

Program			
V-B	\$1,725,669	\$1,398,429	\$(327,240)
V-E	-	304,750	304,750
Development	173,310	149,566	(23,744)
Thorium	11,183	82,150	70,967
Equipment Fabrication	109,760	131,900	22,140
Tooling	47,011	50,032	3,021
U-Oxide	-	1,272	1,272
Equipment Purchased	101,200	201,100	99,900
Total	<u>\$2,168,133</u>	<u>\$2,319,199</u>	<u>\$ 151,066</u>

Production & Unit Cost			
Mark V-B Lbs.	932,000	658,000	(274,000)
Mark V-E Lbs.	-	108,000	108,000

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 by the Atomic Energy Commission and its predecessor agencies.
 The dissemination of this information to an unauthorized person is prohibited.~~

USDOE 017866

~~SECRET~~

J. J. Wise

- 2 -

MAR 6 1963

<u>Unit Cost</u>	<u>DCF-2223-H</u> Currently <u>Approved</u>	<u>DCF-2260-H</u> Revised <u>Proposal</u>	<u>Revised</u> <u>+ or (-)</u>
V-B.	\$1.85	\$2.12	\$.27
V-E	-	2.82	2.82

Comments

1. Why should direct labor cost and estimated man-months increase when total production for the period is decreased by 83 tons of V-B & V-E and the only increase is for the 9,500 pieces of thorium? We can see no reason for an increase in direct labor.
2. It appears that SROO is absorbing all the overhead without a reduction since the OROO work has been discontinued. Total plant overhead for the seven month period ending January 30, 1963, was \$699,000. The SROO overhead for the period March-September 1963 is \$695,000. We can see no reason for the increase in overhead.
3. The increase in purchased equipment is for V-E.
4. The estimate for thorium canning is reasonable based on the cost incurred for the current batch processed.

Conclusion

In view of the SROO objective of obtaining more economical fuel elements, we recommend that Syloor be requested to take a closer look at their elements of cost and manpower with the objective of holding the unit cost of Mark V-B to no more than the current estimated cost. We have no basis for evaluating the unit cost of Mark V-E which is about 35% higher than the Mark V-B in the revised proposal.

cc: I. A. Hobbs, T&P
J. S. Hopkins, Adm.

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USDOE 017867

A

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office

FINDINGS AND DETERMINATION

Authorization for Modification of Cost-Plus-Fixed-Fee Contract

Sylcor Division
Sylvania Electric Products Inc.
Contract No. AT(30-1)-1293
Modification No. 35

The Atomic Energy Commission proposes to modify its cost-plus-fixed-fee contract with Sylcor Division, Sylvania Electric Products Inc., to extend the term of the contract through September 30, 1964, and define the scope of work to be performed during the extended period.

I hereby find that a modification to the cost-plus-fixed-fee type contract is necessary for the following reasons:

1. Specifications for the production of metal units are not sufficiently definitive to permit entering into an immediate unit price arrangement.
2. Program requirements are subject to immediate change.
3. Continuous process development is required.
4. The revised estimated cost (\$2,470,670) of the work under the contract is considered reasonable.
5. The proposed fixed fee of \$141,276 averages six percent (6%) of the estimated cost fee base and is considered fair. The fee was arrived at as a result of negotiations between the parties and is within the AEC fee curve limits.

Upon the basis of the findings set forth above, I hereby determine that it is impracticable to secure services of the kind and quality desired without the use of a cost-plus-fixed-fee Supplemental Agreement, and I hereby authorize the use of said Supplemental Agreement.

BY: _____

H. L. Kilburn

H. L. Kilburn, Facility Manager

TITLE: Savannah River Operations Office

DATE: _____

JAN 21 1964

U. S. ATOMICS ENERGY COMMISSION
Savannah River Operations Office

Modification No. 35
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Amend scope of work and other provisions of the
Contract.

EFFECTIVE DATE : October 1, 1963

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 34</u>	<u>Increase (Decrease)</u>	<u>Modification No. 35</u>
<u>Summary of Estimated Costs and Fixed Fee</u>			
<u>Operating Cost</u> ^{1/}	\$26,523,671	\$2,143,870	\$28,667,541
<u>Plant and Equipment (Beginning July 1, 1963)</u>	123,932	249,100 ^{2/}	373,032 ^{2/}
<u>Fixed Fee (Operations)</u>	<u>1,488,615</u>	<u>141,276</u>	<u>1,629,891</u>
<u>Total Estimated Costs and Fixed Fee</u>	<u>\$28,136,218</u>	<u>\$2,534,246</u>	<u>\$30,670,464</u>
<u>Commission Obligation (as of November 1, 1963)</u>			<u>\$29,326,218</u>

^{1/} Includes Plant and Equipment prior to July 1, 1963.

^{2/} Includes \$35,000 for first quarter FY 1965 authorizations not to be obligated in FY 1964.

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U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 35
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 28th day of February, 1964, effective October 1, 1963, unless otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. In Paragraph 1., Term, of Article III - TERM, EXPIRATION AND TERMINATION, the date "September 30, 1963," is deleted and the date "September 30, 1964," is substituted therefor.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,040,573, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,629,891. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work for the period October 1, 1963, to September 30, 1964, is \$2,470,670, exclusive of the Contractor's fixed fee of \$141,276."
3. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$28,145,046" is deleted and the figure "\$29,326,218" is substituted therefor.

4. The following new subparagraph (e) is added to paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE:

"(e) The fixed fee applicable to work performed during the period October 1, 1963, to September 30, 1964, is \$141,276."
5. The following new subparagraph (e) is added to paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS:

"(e) For the period October 1, 1963, through September 30, 1964, ninety percent (90%) of the fixed fee of \$141,276 shall become due and payable in monthly installments of \$10,595."
6. Item (c) Consulting Services of paragraph 4., Items of Allowable Cost, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read as follows:

"(c) Consulting Services (including legal and accounting) and related expenses, as approved by the Contracting Officer, except as made unallowable by Item (y) of paragraph 5."
7. The following new subparagraph (y) is added to paragraph 5., Items of Unallowable Cost, of Article V - ALLOWABLE COST AND FIXED FEE:

"(y) Salaries or other compensation (and expenses related thereto) of any individual employed under this Contract as a consultant or in another comparable employment capacity who is an employee of another organization and concurrently performing work on a full-time basis for that organization under a cost-type contract with the Commission, except to the extent that cash payment therefor is required pursuant to the provisions of this Contract or procedures of the Commission applicable to the borrowing of such an individual from another cost-type contractor."
8. Appendix "A" Modification No. 29, as amended, is further amended as of October 1, 1963, and is attached hereto and made a part hereof.
9. Appendix "B" Modification No. 29, as amended, is further amended as of October 1, 1963, and is attached hereto and made a part hereof.
10. Provision 7., CONTRACTOR'S ORGANIZATION, of Appendix "E" General Provisions is revised to read as follows:

"7. CONTRACTOR'S ORGANIZATION

(a) Organization Chart. As promptly as possible after the execution of this Contract, the Contractor shall furnish to the Contracting Officer a chart showing the names, duties, and organization of

Modification No. 35
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

key personnel to be employed in connection with the work, and shall furnish from time to time supplementary information reflecting changes therein.

- (b) Supervising Representative of Contractor. Unless otherwise directed by the Contracting Officer, a competent full-time resident supervising representative of the Contractor, satisfactory to the Contracting Officer, shall be in charge of the work at the site at all times.
- (c) Control of Employees. The Contractor shall be responsible for maintaining satisfactory standards of employee competency, conduct and integrity and shall be responsible for taking such disciplinary action with respect to his employees as may be necessary. The Contractor shall establish such standards and procedures as are necessary to implement effectively the provisions set forth in Atomic Energy Commission Procurement Regulations 9-12.54 and such standards and procedures shall be subject to the approval of the Contracting Officer."

11. The following new General Provision No. 23 is added to Appendix "E" General Provisions of the Contract:

"23. Consultant or Other Comparable Employment Services of Contractor Employees

The Contractor shall require all employees who are employed full-time (an individual who performs work under the cost-type contract on a full-time basis) or part-time (50 percent or more of regular annual compensation received under terms of a contract with the Commission) on the Contract work to disclose to the Contractor all consultant or other comparable employment services which the employees propose to undertake for others. The Contractor shall transmit to the Contracting Officer all information obtained from such disclosures. The Contractor will require any employee who will be employed full-time on the Contract work to agree, as a condition of his participation in such work, that he will not perform consultant or other comparable employment services for another Commission cost-type Contractor under its Contract with the Commission except with the prior approval of the Contractor."

12. All other terms and conditions of the Contract remain unchanged.

Modification No. 35
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: [Signature]
R. C. Blair, Manager
TITLE: Savannah River Operations Office

Blair
Agm
[Signature]
[Signature]
[Signature]

WITNESSES:
[Signature]
Nicksville, N.Y.
(Address)

[Signature]
Nicksville N.Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
BY: [Signature]
D. B. Metz
TITLE: Manufacturing Manager
Sylcor Division

I, J. M. T. O. H. C. C., certify that I am ASST. SECRETARY of Sylvania Electric Products Inc., named above; that D. B. METZ who signed this Agreement on behalf of said corporation, was then MFG. MGR. Sylcor Division of said corporation, and that this Agreement was duly signed for and in behalf of said corporation by authority of its governing body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 17 day of FEBRUARY 1964.

[Signature]

(CORPORATE SEAL)

H. Call-in Pay (Non-exempt Salaried and Hourly Employees)

Employees who are called in for emergency work outside their regularly scheduled hours may be paid at overtime rates for such hours worked or a minimum of four hours straight time, whichever is greater.

I. Separation Pay

1. Separation Pay in Lieu of Notice

Employees with six (6) months or more of continuous service who are permanently and involuntarily separated without prejudice will receive notice or separation pay in lieu of notice as indicated below:

- a. Hourly Employees - One (1) week's notice or one (1) week's pay at base rate, not to exceed 40 hours.

Should an hourly paid employee be separated because of lack of work while assigned to commercial work at the Hicksville Plant and "bump" through seniority rules an employee on Contract work, it is agreed the Commission shall not be liable for separation pay to the separated employee. Where an employee engaged on Contract work at the Hicksville Plant "bumps" a less senior employee assigned to commercial work, the Commission shall reimburse the Company, if required, for separation payments to the employee thus separated. In all instances where the Commission reimburses for separation pay to employees not engaged on its work at time of separation, payments must be approved by the Commission.

- b. Non-Exempt Salaried Employees - Two (2) weeks' pay and as much notice as possible. An additional one week's pay may be granted to employees having five (5) or more years of continuous service.

Separation pay to eligible employees whose total Company service has been divided between the Contractor's commercial activities and work under this Contract shall be prorated according to length of service on Contract work and the Company's commercial activities.

- c. Exempt Salaried Employees - Four (4) weeks pay or until the employee secures new employment for employees with up to five (5) years continuous service. An additional one (1) week's pay for each year, or portion thereof, of continuous service in excess of 5 years service or until the employee secures

Revised October 1, 1963

new employment except that in no instance shall the employee receive more than 15 weeks separation pay. Separation pay to eligible employees whose total Company service has been divided between the Contractor's commercial activities and work under this Contract shall be prorated according to length of service on Contract work and the Company's commercial activities.

2. Severance Pay - Hicksville Site Closing

Reimbursement will be made to the Company for severance payments only in the event that the Hicksville site is closed because of termination or expiration of this Contract. Severance payments made to employees whose total service has been divided between the Contractor's commercial work and work under this Contract shall be prorated according to the length of service on Contract work and commercial work. Employees whose employment is terminated because of the closing of the Hicksville site may receive severance pay in accordance with the sections of Sylvania Electric Products, Inc., Policy and Standard Practice entitled "Reassignment or Separation of Employees when a Plant or other Facility is Being Permanently Closed" and "Separation Policy-Plan 'A' Employees" further identified as No. 313. (Supplements 2 and 4) issued October 1, 1963.

IV. EMPLOYEE BENEFITS

A. Educational Benefits

When an employee is assigned to an educational course as part of his work under this Contract, the Contractor may pay the cost of the course, including books and required travel expenses.

Employees who elect to take educational courses may be reimbursed by the Contractor as outlined below.

1. The employee must obtain approval of the Plant Manager prior to enrolling in the course.
2. Upon completion of the course and before reimbursement for any part of the course cost is made, the employee shall provide acceptable evidence of successful completion and appropriate properly receipted bills.
3. If the course is directly related to the performance of Contract work, 100% tuition will be refunded upon satisfactory completion of the course.

Revised October 1, 1963

4. If the course is not directly related to the employee's present work but is related to the employee's development for higher level work in which there is a reasonable probability that he may be engaged under the Contract, 50% of the tuition may be refunded upon satisfactory completion of the course.
5. If the course is not directly related to Contract work but part of the requirement for a degree in a field directly related to the Contract work in which the employee is engaged, 50% of the tuition may be refunded upon satisfactory completion of the course.

In addition to the benefits outlined above, up to six hours time off per week with pay may be granted to employees who take approved graduate-level courses related to this Contract.

B. Group Insurance

The Contractor maintains group insurance program for all eligible and retired employees including: 1) life insurance, 2) accidental death and dismemberment insurance, 3) insurance for company travel, 4) hospital-surgical-medical insurance, 5) major medical insurance, and 6) non-occupational disability insurance, the details of which are on file and approved by the Commission. The Contractor's contribution to the cost of the program is reimbursable on a pro rata share basis as approved by the Commission. A proper share of dividends, premium refunds, and other credits accrued to the approved group insurance program will be credited to the cost of Contract work. The following group insurance programs are provided by the Contractor.

1. Life Insurance is provided for all regular employees at no cost to the employee after one month of Company service. The amount of insurance is determined by the employee's base rate of pay. The face value of the life insurance per eligible employee will be a minimum of \$3,000 and a maximum of \$225,000. Insurance coverage may be extended up to one year during a period an employee is totally disabled.
2. Accidental Death and Dismemberment Insurance is provided for all regular employees at no cost to the employee after one month of Company service. The amount of insurance is determined by the employee's base rate of pay, with a minimum of \$3,000 and a maximum of \$20,000 for any one accident. Insurance coverage may be extended up to one year during the period an employee is totally disabled.
3. Insurance for Company Travel is provided at no cost to the employee to cover death while an employee is traveling on, and as a result

Revised October 1, 1963

of, Company business. The amount of death insurance will be two times the employee's base annual salary, subject to a minimum of \$25,000 and a maximum of \$150,000.

4. Hospital-Surgical-Medical Insurance is provided for regular employees at no cost to the employee after one month of Company service. The insurance covers the employee and his dependents. Insurance coverage may be extended up to one year during a period an employee is totally disabled.
5. Major Medical Insurance is provided for all regular employees at no cost to the employee after one month of Company service. Major Medical Insurance is in addition to the basic Hospital-Surgical-Medical Insurance. Insurance coverage may be extended up to one year during a period an employee is totally disabled.
6. Non-Occupational Disability Insurance is provided to all employees at no cost to the employee immediately upon employment if the employee was a covered employee working for a covered employer within the preceding six months or after 28 calendar days of employment. Benefits under this plan begin eight (8) days after a non-occupational illness or injury. Payments under this policy are made in lieu of salary or wages in an amount equal to one-half of the normal weekly pay, but not to exceed \$65 per week. Benefits under this policy for any one accident or illness may not be paid for more than 26 weeks.

C. Pension Plan

A non-contributory Pension Plan is provided all employees of the Contractor, the details of which are filed with and approved by the Commission.

D. Savings and Security Plan

Regular employees with one year of continuous service may participate in a voluntary Savings and Security Plan as filed and approved by the Commission. Under the Plan participating employees contribute 3% of their earnings by payroll deductions and the Contractor contributes 6% of its net profits before Federal tax based on income for each year but not to exceed an amount equal to the total amount contributed by the members and not withdrawn during the year.

V. TRAVEL, TRANSPORTATION, SUBSISTENCE, AND MOVING EXPENSES

A. Travel, Transportation and Subsistence

Travel incurred by employees, consultants and prospective employees

Revised October 1, 1963

in connection with the performance of contract work may be reimbursed as follows:

1. The actual cost of transportation by common carrier, or \$.08 per mile plus highway, bridge, ferry and tunnel tolls when travel by vehicle is authorized.
2. The reasonable actual cost of lodging in accordance with prevailing locality rates plus an allowance not in excess of \$7.50 per day for subsistence.
3. The actual cost of necessary telephone calls, telegrams, and incidental transportation and personal expenses.

B. Moving and Relocation Expenses

Key scientific, technical and professional employees moving and relocation expenses to plants operated in connection with the performance of contract work may be reimbursed as follows:

1. Transportation expenses for an employee and dependents as in A. 1. above.
2. The reasonable actual cost of lodging plus a subsistence allowance not in excess of \$7.50 per employee, \$6.00 for each dependent over 12 years of age and \$4.00 for each dependent 12 years of age and under while enroute from place of permanent residence to transferred location.
3. A living expense allowance not to exceed \$9.00 per day for thirty (30) days to cover additional living expenses of an employee where family remains at principal place of permanent residence at time of transfer. In addition, the incurred cost of two (2) round trips from place of work to principal place of permanent residence during this period.
4. Reasonable travel expenses incurred by an employee's wife in making visits not in excess of two round trips to new location prior to transfer of residence with such expenses reimbursed in accordance with A.1., 2., and 3. above; or, if traveling with husband, in accordance with B.1., and 2. above.
5. Reasonable brokerage fees not to exceed 5% of sale price plus legal and other necessary closing fees in connection with the sale of principal place of permanent residence at the old location; or, a reasonable cancellation fee not to exceed the equivalent of three (3) months' rental in connection with the breaking of a lease on a

Revised October 1, 1963

rented house or apartment.

6. Legal fees and other unavoidable expenses not to exceed 3% of the purchase price in connection with the purchase of a residence at the new location.
7. The cost of real estate taxes, fire insurance, and interest on the mortgage on the old house not in excess of the equivalent of one month's payment when it is necessary for an employee to take title to a house in the new location without completing the sale and transfer of title to his house at the old location.
8. The reasonable cost of transportation of household goods and effects including packing, crating, insurance, unpacking, disconnecting and connecting equipment and for temporary storage of house hold goods and effects not in excess of thirty (30) days.
9. Incidental relocation expenses not to exceed 50% of one (1) month's base salary for an employee who owns and transfers household goods to the new location.
10. When at the Contractor's request an Exempt Plan A employee is transferred from another Sylvania location to the Hicksville site, reimbursement consistent with Sylvania commercial practice as defined in its Policy and Standard Practice Manual dated February 15, 1963, may be made for a loss sustained by the employee in the sale of his residence. It is understood that this policy shall be applied uniformly to all company Plan A employees and that reimbursement for such a loss is limited to its occurrence upon the transfer of an employee to the Hicksville site to perform work on Contract AT(30-1)-1293 and not applicable to its occurrence upon the transfer of an employee performing work on Contract AT(30-1)-1293 from the Hicksville site to another location. Reimbursement of any loss in excess of \$500 shall be subject to the Commission's prior approval.

C. New Hires - Key Scientific, Technical and Professional Employees

Travel and moving expenses incurred by new hires in connection with Contract work may be reimbursed as follows:

1. Transportation and moving expenses for an employee and dependents as in V.A.1., B.2., and B.8.
2. Reasonable cost of room and board for two weeks and reasonable travel expenses incurred by an employee or his wife in making visits not to exceed two round trips between new location and former residence if the new employee relocates before moving his

Revised October 1, 1963

family.

VI. MISCELLANEOUS EXPENSES AND ALLOWANCES

A. Pre-Employment Physical Examination

Reimbursements may be made for the expense of pre-employment physical examinations performed by a non-company physician when such examinations are necessary for the placement of an individual on Contract work. Such reimbursements will not exceed \$35 for any one individual.

B. In-Plant Training Courses

The reasonable costs of in-plant training courses deemed essential and of benefit to the performance of Contract work are approved as allowable Contract costs.

C. Outside Training and Meetings

When it is in the interest of the Contract for an employee to participate in outside training at the request of the Contractor or attend scientific, technical, or professional meetings, the cost of such training or attendance is an allowable cost under the Contract. Participation in outside training or attendance at meetings for a period of five (5) working days or more and all foreign travel incurred in connection therewith, will require the prior approval of the Commission.

D. Licenses, Professional Society Memberships, and Magazine Subscriptions

1. When professional licenses are considered essential to the performance of Contract work or where an employee is the official representative of the Contractor or attends meetings of engineering, management or professional societies as part of his work, reimbursement may be made for the actual costs of such licenses, dues or memberships, and magazine subscriptions.
2. Where employee subscriptions to technical magazines, professional licenses, or memberships in scientific, engineering or professional societies are considered of benefit to the performance of Contract work, reimbursements may be made up to one-half the costs of such subscriptions, licenses or memberships.

E. Publication Awards

Employees may receive token awards not to exceed \$50 for publications of technical papers in technical journals which are of interest to the Contract and for which no compensation has been received from the

Revised October 1, 1963

publisher.

F. Employee Social and Recreational Activities

Costs incurred as Contractor contributions to employee social and recreational activities may be made in an amount not exceeding the equivalent of 9 cents per week per employee.

G. Supper Money

Reasonable supper money allowances may be paid to exempt employees when they are not receiving overtime pay and work 2½ hours or more past the end of their standard shift. Non-exempt salaried and hourly employees, who receive overtime wages, will not receive supper money.

H. Employment Agency Fees

When employment agency services are required to secure properly qualified personnel for the performance of Contract work, agency fees for such services may be reimbursed in an amount not exceeding 10% of an employee's base annual wage or salary.

I. Printed Material

A pro rata share of the cost of printed material which is distributed to employees for training, information and indoctrination under the Contract is reimbursable.

J. Clothing Loss

Damage to or loss of employee clothing and personal property as the result of the performance of Contract work and not attributable to the employee's carelessness or negligence will be reimbursed. The amount of reimbursement will be based on replacement cost minus a fair depreciation estimate.

K. Personal Protective Equipment

The Contractor will be reimbursed for the cost of providing employees with required personal protective equipment or clothing in accordance with the Contractor's established policies and practices.

✓ L. Patent Awards

The Contractor may be cost reimbursed in amounts not to exceed \$100 per employee under the Contractor's Patent Award Program for patents granted and assigned to the Commission. Where the invention or dis-

Revised October 1, 1963

covery is of particular importance or value to the Commission, additional awards may be granted with prior written Commission approval.

M. Suggestion Awards

The Contractor may be reimbursed on a pro rata share basis for the reasonable cost of a Suggestion Awards Program. Hourly and non-exempt salaried employees on jobs which require working out improvements, developments, or new ideas shall be eligible for awards for only those suggestions which apply outside the scope of their own responsibility, duties, or assignments. Exempt employees shall not be eligible for suggestion awards. The minimum award is \$7.50. The maximum award is \$25,000. Reimbursement of any award in excess of \$250 for any one employee or \$500 for any employee group shall be subject to the approval of the Commission. The Contractor will provide the Commission with such data as may from time to time be required for appraisal and substantiation of costs incurred under the program.

O. Family Day

The Contractor may be reimbursed on a pro rata share basis for the reasonable cost of holding an annual "Family Day - Open House" program. Reimbursement shall be subject to prior approval of the Commission.

P. Cooperative Student Work Program

When it is in the interest of the contract to afford engineering or scientific students employment under a cooperative arrangement with an accredited college or university that has a bona fide and established cooperative student work program in accredited, engineering and/or scientific disciplines, reimbursement may be made for expenses as follows:

1. Travel and Related Expenses for the Student's Initial Interview

- a. The actual cost of transportation between the school and the contractor plant site by common carrier, or \$.08 per mile plus highway, bridge, ferry and tunnel tolls when travel by private passenger vehicle is used.
- b. The reasonable actual cost of lodging plus an allowance not in excess of \$7.50 per day for subsistence.
- c. The actual cost of necessary telephone calls, telegrams, and incidental transportation expenses.

Revised October 1, 1963

2. Travel and Relocation Expenses

- a. Travel as described in A.1., above between the school and the contractor's plant site for each 6 months term of work where the student ordinarily lives (except when in school) more than 50 miles from the contractor's plant site.
- b. The reasonable actual cost of lodging plus a subsistence allowance not in excess of \$7.50 per day while in travel status.
- c. In order to allow the student time to find housing, the reasonable actual cost of lodging not to exceed \$7.50 per day for a period up to one week (7 days) on the initial work term and up to 3 days on subsequent work terms and approved by the contractor on an individual basis.

3. Salaries

Students working under a cooperative program and performing work on the contract will be paid according to the following scale:

	<u>Work Term*</u>	<u>Weekly Salary</u>
Co-op Student 1	(1)	\$78.00
	(2)	82.00
Co-op Student 2	(3)	90.00
	(4)	94.00
Co-op Student 3	(5)	102.00
	(6)	106.00
Co-op Student 4	(7)	114.00
	(8)	114.00

* Each term represents 3 months

4. Continuity of Service

The student's return to school work at the end of each work term will, for the purpose of calculating company benefits, be regarded as a resignation and service will not accumulate from one term to another unless and until the student ceases to work under the cooperative program and becomes a full time regular employee. At such time as the student becomes a full time regular employee all company benefits will be applicable to the student and credit will

Revised October 1, 1963

be given for the full time he worked under the cooperative program.

5. Other Benefits

Cooperative students will not be eligible for all company benefits but may be treated the same as a regular employee under Appendix "A" for the following:

Section II	A	Holidays
Section III	D - 1	Court Duty
	D - 3	Death in Immediate Family
	D - 5	Required Selective Service Examinations
Section IV	B	Group Insurance

Revised October 1, 1963

SCHEDULE I

SALARIED EMPLOYEES

Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Monthly Salary Range</u>
Manufacturing Manager	13 J	\$1150 - \$1905
Engineering Manager "B"	12 J	1035 - 1710
Engineering Specialist Plant Manager "C" Section Head	11 J	940 - 1555
Manufacturing Superintendent Supervisor of Product Engineering Advanced New Product Development Engineer-Sylcor	10 J	855 - 1410
Advanced Research (or Development) Engineer Engineer-in-Charge Supervisor of Quality Control "A" Senior Sales Engineer	9 J	765 - 1260
Equipment Design Specialist General Foreman Project Engineer Research (or Development) Engineer Supervisor of Cost Control "A"	8 J	690 - 1145
Safety Engineer, Sylcor Research Metallographer Senior Engineer "A" Supervisor, Production Control "B" Supervisor, Quality Control "B" Supervisor of Personnel "B"	7 J	635 - 1045

Revised December 30, 1963

Contract No. AT(30-1)-1293 with
Sylvania Electric Products Inc.,
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Monthly Salary Range</u>
Contract Administrator Equipment Designer, Sr. Purchasing Agent "A" Senior Engineer "B" Supervisor of Security and Administrative Service Supervisor of Maintenance "B" Toolroom Foreman Foreman Class I Tool Coordinator	6 J	\$ 590 - \$ 965
Buyer Cost Analyst & Statistician Supervisor of An Accounting Department Section	5 K	550 - 890
Engineer Foreman, Nuclear Products Industrial Engineer Accountant, Senior Foreman II Personnel Assistant Systems and Procedures Analyst, Jr. Equipment Designer	4 K	510 - 815
Cost Accountant	3 K	470 - 745

Revised December 30, 1963

SCHEDULE I

SALARIED EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Weekly Salary Range</u>
Master Craftsman Technical Associate	64	\$126 - \$190
Designer-Draftsman	63	118 - 176
Material Requirements Analyst Production or Maintenance Supervisor I Technician, Senior Production Scheduling Clerk Job Estimating Clerk Accountability Supervisor	62	109 - 166
Draftsman Accountant, Junior Production or Maintenance Supervisor II Safety Inspector Plant Protection, Supervisor	60	97 - 148
Employment Interviewer & Counselor Buyer, Junior Nurse, Senior Technician Stock Clerk Production Control Clerk	59	91 - 138
Payroll Accountant Purchasing Clerk Secretary, Senior	58	86 - 130

Revised October 1, 1963

SCHEDULE I

SALARIED EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Weekly Salary Range</u>
Draftsman, Junior Nurse Production Section Leader	57	\$82 - \$123
Production Control Clerk, Junior Technician, Junior Secretary Accounting Clerk, Senior Stock Clerk, Junior Statistical Clerk, Senior	56	77 - 114
Clerk, Senior	55	74 - 106
Accounting Clerk, Junior Technical or Statistical Clerk Telephone Operator II	54	71 - 98
Clerk-Typist	52	71 - 86

General Wage Increase - Effective September 2, 1963

Revised October 1, 1963

SCHEDULE II

HOURLY EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Hourly Salary Range</u>
Tool, Die & Model Maker "A"	IG 12	\$3.05 - \$3.66
Machinist "A" Electrician Specialist Inspector "A" Sheet Metal Specialist	IG 11	2.88 - 3.49
Mechanic "A" Welder "A" Sheet Metal Worker "A" Electrician "A" Welder I Machinist I	IG 10	2.72 - 3.28
Machinist "B" Carpenter Inspector "B"	IG 9	2.56 - 3.08
Mechanic "B" Process & Equipment Checker Assembly & Furnace Brazing Rolling Mill Operator Melter Guard Sergeant Fluoroscope Operator & X-Ray Inspector Radiographist	IG 8	2.41 - 2.92

General Wage Increase - Effective September 2, 1963

Revised October 1, 1963

SCHEDULE II

HOURLY EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Hourly Salary Range</u>
Armed Guard Armed Courier Storekeeper Machinist "C" Inspector "C" Chemical Room Operator Machining Operator-CPP Sodium Loading Dry Box Operator Briquetting Operator Heat Treatment Operator Hot Pressing Operator-VB Welding Operator-VB Machining Operator-VB Fluoroscope Operator Hot Press Operator Finishing Operator Maintain Chemical Solutions	IG 7	\$2.25 - \$2.73
Materials Stock Clerk Mechanic "C" Canning-Hot Press Operator Canning-Assembler Die Processing Operator Machining Operator-AEC Plating Machine Operator Fabrication Operator Rack Maintenance Man	IG 6	2.14 - 2.56
Groundskeeper Trainee, Production	IG 5	2.02 - 2.41
Maintenance Apprentice	IG 4	1.91 - 2.26
Cafeteria-Dishwasher, Porter Janitor-Porter	IG 3	1.81 - 2.13

General Wage Increase - Effective September 2, 1963

Revised October 1, 1963

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1st Review Date: <u>4/3/63</u> Authority: <u>ADPC LADD</u> Name: <u>Black</u> 2nd Review Date: <u>7/2/63</u> Auditor: <u>APD</u> Name: <u>Donahue, J. Donahue</u>	Determination (Classification Number) 1. Classification Unchanged 2. Classification changed to: <input checked="" type="checkbox"/> Classification Changed 3. Other: <u>CG-NMP-3</u> 9-00
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DCF #2271-H

March 22, 1963

PRODUCTION COSTS OF 3 BUNCH
No. 2 of 4 copies. Series A

Mr. R. C. Blair, Manager
 U.S. Atomic Energy Commission
 Savannah River Operations Office
 P.O. Box A
 Aiken, S.C.

Attention: Mr. N. J. Donahue

Gentlemen:

We are pleased to submit a proposal covering program changes to the scope of work, as requested in your letter of February 20, 1963 (SR-TM-9424) and revised by your telegram of 3/12/63. This supersedes our submission dated 2/27/63.

The new total costs for the contract period are \$3,691,700 including fee. The cost information covers actual costs from October, 1962 through February, 1963 and new estimated costs for the period March through September, 1963.

In addition to the revised production programs, this proposal covers continuation of the scope of the current development programs as detailed in our previous proposal DCF #2165-H, and additional new work as outlined below.

As authorized by your letter, we have adjusted the production schedules for the Mark V-B IF and Mark V-E IF programs to effectively utilize manpower and equipment and to minimize employee recruiting later in the contract period. By advancing

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DCF #2271-H

R. C. Blair

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3/22/63

the Mark V-B schedule, we make it possible to initiate Mark V-E production with minimum new employment while retaining trained and experienced personnel.

This proposed Mark V-B IF schedule exceeds the cumulative deliveries required by SR-TM-9424. The Mark V-E IF schedule adjustment is necessitated by the fact of our annual vacation shutdown during July. These schedules (units in tons) follow:

<u>PERIOD</u>	<u>MARK V-B IF</u> <u>ribless</u>	<u>integral rib</u>	<u>MARK V-E IF</u> <u>integral rib</u>
March '63	22	40	--
April	--	57	--
May	--	57	--
June	--	57	--
July	--	16	10
August	--	40	22
September	--	40	22

VP 6F
The cladding of Mark V-B OF elements will be discontinued upon depletion of inventory in March, 1963.

TH
Funds requested for Mark VII-T (Thorium) work cover the machining and cladding of approximately 9,500 slugs for delivery by September 30, 1963 and the stripping of aluminum cladding from approximately 2,500 pounds of reject Mark VII-T slugs.

TH
The capital equipment list (Schedule #3) conforms to the format discussed with Mr. M. Robinson on 3/22/63. The list of items and estimated costs have been revised to reflect actual expenditures and projected expenditures through September, 1963. The new lists contain funds authorized for the design of a new inline press and funds needed to prepare for production of Mark V-E only at the level shown on our adjusted schedule above. As a basis for these Mark V-E equipment needs, we have used and updated the list for Phase I detailed in our letter dated 12/31/62.

We propose to undertake on a best efforts basis, a program to

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DCP #2271-H

R. C. Blair

-3-

3/22/63

convert to oxide approximately two hundred pounds of scrap uranium and uranium carbide. It is our understanding that this material is pyrophoric. This will require installation of an inert-atmosphere dry-box for handling the material prior to oxidation. Our estimated cost for this work totals \$1,300, including fee, and is included in the total development program funds.

We propose to conduct preliminary development work on the feasibility of hot pressure bonding zircalloy-2 cladding to uranium core specimens. The cost estimated in this proposal is limited to that needed to prepare, on a best efforts basis, samples of direct zirconium to uranium bonding and samples of zirconium to uranium bonding, with a nickel-aluminum interface. Our estimated cost for this work totals \$1,120, and is included in the total development program funds.

Where not specifically revised by this proposal, all other scope items remain as stated in Modification #32 of Contract AT(30-1)-1293.

The additional information requested in your letter is made part of this proposal, as is a detailed explanation of the overhead figures used in our December 20, 1962 proposal. This is Schedule #5. Other overhead detail and background data are being forwarded to your financial staff under separate cover.

May we state that we are pleased to submit this proposal for your consideration. We hope you find it satisfactory. We are available to meet with your staff at their convenience should further discussion be desirable.

Yours very truly,

SYLOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.

DBM/gg
Att: Sched. 1 thru 5

D B Metz
D. B. Metz
Manufacturing Manager
APR 22 1963
RECEIVED

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USDOE 017892

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Office Memorandum • UNITED STATES GOVERNMENT

TO : J. S. Hopkins, Director
Administrative Division
FROM : *James R. Jakes*
A. Y. Morgan, Director
for Budget and Finance Division

DATE: APR 12 1963

UNCLASSIFIED

SUBJECT: REVIEW OF SYLCOR PROPOSAL DCF-2271-H
FB:MER:mp

Document No. SR *FB-934*

This document consists of *5* pages,

No. *1* of *8* copies, Series *R*

We have reviewed Sylcor's revised proposal (DCF-2271-H) for the contract year ending September 30, 1963 and submit the following comments, financial analysis and contract modification data.

Comments

Since there were significant changes in the Mark V-B Program, Mark V-E elements were required for a pilot loading and since additional thorium was to be canned, Sylcor was asked to submit a revised proposal which would include the above changes in scope. The change in scope would be effective March 1, 1963.

A revised proposal was received (DCF-2260-H) dated February 27, 1963 incorporating the above changes. However, as a result of inappropriate increases in certain items of costs, the proposal DCF-2260-H was not accepted and Sylcor was requested to submit another proposal which they did - DCF-2271-H dated March 23, 1963.

The following is a comparison of costs and production between those currently approved and those included in proposal DCF-2271-H.

	12-20-62 Estimated DCF-2223-H	3-23-63 Estimated DCF-2271-H	Increase or (Decrease)
(In Thousands of Dollars)			
Mark VII-A	\$ 449	\$ 440	\$ (9)
Mark V-B	2,452	2,033	(419)
Mark V-E	-	307	307
Development	299	302	3
Thorium	64	142	78 <i>new</i>
Tooling	80	74	(6)
Fabricated Equipment	185	195	10
Purchased Equipment	167	199	32
Total	\$3,696	\$3,692	\$ (4)

DEPARTMENT OF ENERGY, SAVANNAH RIVER RESEARCH ESTABLISHMENT, NON REVIEW
 Determination (Circle Number)
 1. Classification Unchanged
 2. Classification changed to:
 3. Classification Cancelled
 4. Other: CG-NMP-2 2.00
 1st Review Date 4/3/63
 Authority: B.A.M. ADD
 Name: *J.R. Jakes*
 2nd Review Date 4/16/63
 Authority: ADD
 Name: *James R. Jakes*

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at 301-1293

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APR 12 1963

J. S. Hopkins

-2-

<u>Production & Unit Cost</u>	12-20-62	3-23-63	Increase
	Estimated DCF-2223-H	Estimated DCF-2271-H	or (Decrease)
	(In Thousands of Dollars)		
Mark VII-A - Prod. Lbs.	420,000	442,000	22,000
- Unit Cost	\$1.06	\$.99	\$ (.07)
Mark V-B - Prod. Lbs.	1,243,200	957,200	(286,000)
- Unit Cost	\$1.97	\$2.12	\$.15
Mark V-E - Prod. Lbs.	-	108,000	108,000
- Unit Cost	-	\$2.84	\$2.84
Thorium - Slugs	7,064	16,564	9,500
- Unit Cost	\$9.06	\$8.57	\$ (.49)

Estimated Costs - Expense

Direct Labor	\$1,073,100	\$1,062,336	\$(10,764)
Direct Materials	967,900	873,173	(94,727)
Overhead	1,089,500	1,162,729	73,229
G & A	198,500	196,480	(2,020)
Adjust.	(1,240)	972	2,212
Subtotal	3,327,760	3,295,690	(32,070)
Fee Adj. Thorium	-	(478)	-
Fee	199,665	197,741	(2,402)
Adjustment	1,240	-	(1,240)
Purchased Equipment	167,200	199,319	32,119
Total	<u>\$3,695,865</u>	<u>\$3,692,272</u>	<u>\$ (3,593)</u>

We are concerned with the increases in the estimated unit costs and the continued high total cost of Mark V-B. However, in a discussion with Bill Mandaro, we were assured that during the change-over period, this is the best forecast that they can make. Mandaro did inform us that he believes that with their planned automation, over the next six months, they would expect to get a much lower unit cost for Mark V-B in the next contract period. This, we expect in subsequent proposals.

We asked Mandaro why the unit costs for V-E were so high, and he informed us that they are essentially experimental quantities being produced in experimental facilities and represented their best estimate. We have no experience basis to evaluate the estimate for V-E.

We questioned the increase in cost and fee for canning the first batch of thorium slugs which were to be completed in March. The increase in cost was about \$8,000 with a fee of \$478. Sylcor

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J. S. Hopkins

has agreed that there was no change in scope here and will decrease their fee request by \$478 (telecon Robinson to Gannon 4/8/63). They will confirm by letter.

We also questioned their increase in overhead from the December 20, 1962 proposal (DCF-2223-H). We discussed the overhead increase with Bill Crowley and he indicated that the overhead was actually over-running their December 20 estimates by a considerable amount. Crowley indicated that proper significance had not been given in the December 20 estimates to the discontinuance of the work for OROO and GE in its effect on the allocation of overhead to SROO. Some \$100,000 per year of overhead was being absorbed by OROO and HOO work. The following is a comparison of actual with estimated overhead through February 1963.

	<u>Estimated</u>	<u>Actual</u>	<u>Overrun</u>
Overhead Costs	\$465,400	\$491,509	\$26,109

The actual February rate of overhead was \$106,183. Assuming that it would continue at the February rate through September, the overhead for the contract year would be:

7 Months x \$106,183	\$743,281
Actual thru February	<u>491,509</u>
Total Projected	\$1,234,790

Revised estimate for overhead for the contract year is \$1,162,729.

Conclusion

Sylcor is producing some 85 - 90 tons less of natural uranium during the revised period which is offset in part by an increase for thorium (9500 slugs) and they were going into the production of new elements (V-E). As evidenced by the cost comparisons, there is very little increase in cost. Therefore, since Sylcor is in a transitory period during which optimum costs conditions do not exist, we recommend acceptance of the proposal after the reduction of \$478 in fee.

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J. S. Hopkins

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APR 1 - 1963

The following changes should be made in the financial portion of the contract.

1. Obligations: Since the estimated cost change is small and there are changes in funding requirements for stores inventories and working capital, no changes should be made in obligations.
2. The cover sheet of the contract should be changed as follows:

	<u>SR00</u>	<u>NY00</u>	<u>Total</u>
Previous Direct Cost Mod. 32	\$22,702,786	\$3,951,805	\$26,654,591
This Modification Net Increase	<u>2,402</u>	<u>-</u>	<u>2,402</u>
New Total Direct Costs	<u>\$22,705,188</u>	<u>\$3,951,805</u>	<u>\$26,656,993</u>
Previous Fixed Fee	\$ 1,318,305	\$ 172,150	\$ 1,490,455
This Modif. Decrease	<u>(2,402)</u>	<u>-</u>	<u>(2,402)</u>
New Total Fixed Fee	<u>\$ 1,315,903</u>	<u>\$ 172,150</u>	<u>\$ 1,488,053</u>
Total Est. Cost and Fixed Fee	<u>\$24,021,091</u>	<u>\$4,123,955</u>	<u>\$28,145,046</u>
Total Obligated 3/1/63			<u>\$28,145,046</u>

3. Paragraph 1, Estimate of Cost and Fixed Fee, of Article IV - Estimates of Costs, Obligations of Funds, and Fixed Fee should be changed to read as follows:

(1) Estimate of Cost and Fixed Fee - The presently estimated cost of the work under the contract is \$26,656,993, exclusive of the contractor's fixed fee. The contractor's fixed fee as set forth in Paragraph 2, Article V of the contract is \$1,488,053. The estimated cost of the work as described in Paragraph 1 of the Article entitled Scope of Work for the period October 1, 1962 to September 30, 1963 is \$3,495,009 exclusive of the contractor's fixed fee of \$197,263.

(2) The amounts included in subparagraph (d) to Paragraph 2, Fixed Fee of Article V - Allowable Cost and Fixed Fee should be changed to read \$197,263.

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J. S. Hopkins

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APR 12 1963

(3) Subparagraph (d) of Paragraph 2, Payment of Fixed Fee
of Article VI - Payments should be changed to read:

(d) For the period October 1, 1962 through February 28,
1963, ninety per cent (90%) of the fixed fee of
\$83,195 shall become due and payable in monthly
installments of \$14,975. For the period March 1,
1963 through September 30, 1963, ninety per cent
of the fixed fee of \$114,068 shall become due and
payable in monthly installments of \$14,666.

CC: J. J. Wise, Asst. Mgr. for Admin.
N. J. Donahue, T&P Division
E. W. Stark, Accounting Br.
R. A. Messick, Contract Fin. Br.

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USDOE 017864

A

WSRC CLASSIFICATION REVIEW	
Review Date: <u>4/28/04</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>Rh Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/04</u>	
Authority: <u>ADD</u>	<input checked="" type="checkbox"/> 3. Classification Cancelled
Name: <u>MMH</u>	4. Other: <u>CG-NMP-2 8/04</u>

The document consists of 11 pages
 of 1 copies series 7

SR-A-141

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 REVISED MAY 1, 1963, UNDER
 MODIFICATION NO. 34

The scope of work to be performed by the Contractor during the period October 1, 1962, through September 30, 1963, as set forth by Modification No. 33 is revised to read as follows:

1. MARK VII-A - MARK V-B AND MARK V-E (Inner-Fuel)

a. The Contractor shall manufacture and furnish to the Commission Mark VII-A, Mark V-B and Mark V-E slugs at monthly tonnages as follows:

	Mark VII-A (Tons)	Mark V-B (Tons)		Mark V-E (Tons) Integral Rib
		Integral Rib	Ribless	
October 1962	70	10.2	0	0
November 1962	70	10.2	0	0
December 1962	70	10.2	0	0
January 1963	0	27.0	27	0
February 1963	0	38.0	27	0
March 1963	0	40.0	22	0
April 1963	0	57.0	0	0
May 1963	0	74.0	0	0
June 1963	0	74.0	0	0
July 1963	0	41.0	0	10
August 1963	0	48.0	0	22
September 1963	0	48.0	0	22

b. The Contractor shall produce by November 29, 1962, 50 Mark V-B IF ribbed dummy slugs according to Du Pont Drawing SSK 4-3-222 using unplated stainless steel as the core material rather than uranium.

2. MARK V-B (Outer-Fuel)

Maintain Mark V-B outer-fuel element facilities in ready standby which shall include such minimum token operation as required to maintain capability. It is understood that minimum token operation will not exceed an average production of approximately 100 pieces per month. This program will be discontinued upon depletion of inventory in March 1963.

Group 1: Excluded from automatic downgrading and declassification.

Cy 9A+10A destroyed 7/27/66

3. PROGRAM DEVELOPMENT

a. Mark V-E

Initiate development of a process for canning Mark V-E inner-fuel elements by the hot pressure bonding process. Contractor will conduct a program using its best efforts toward preparation of approximately 1,750 flow test, qualification, and reactor test pieces by June 1, 1963.

The program shall include the preparation of specifications and operating procedures for canning Mark V-E inner-fuel elements, including all necessary research, development, canning and data accumulation. This program will also include the design of the necessary tooling and equipment for converting to a production program in either hot pressure bonding or hot die sizing process, whichever method is authorized by the Commission.

b. Hot Die Sizing

Continue investigation into the hot die sizing process of cladding Mark V-B inner-fuel elements to determine the feasibility and economic advantages, if any, of this method as a production process. Contractor shall design, procure and fabricate such equipment and tooling as is necessary to prepare test pieces, and conduct experimental procedures.

Also, the Contractor shall prepare specifications and operating procedures for canning Mark V-B and V-E inner-fuel elements in a production method, if possible. Further, the Contractor shall design such tooling and equipment as is necessary to automate or mechanize the process evolved and to adapt this process to the Mark V-E fuel element when authorized by the Commission.

c. Nondestructive Testing

Investigate nondestructive techniques for the inspection of all fuel element cores and slugs processed at the Hicksville Plant. The work under this program will consist of the following:

1. Continuation of work on the development of a method to detect the formation of a nickel-uranium eutectic in hot pressure bonded slugs.
2. Design of a positive nondestructive test for accurately distinguishing grain size and orientation of uranium after heat treatment and the incorporation of such test in the production line to permit inspection of 100 percent of the cores processed.

3. Improvement of a test to measure nickel thickness on cores and the plating quality and the modification of the equipment so that it is applicable to Mark V-E size cores and can be incorporated into an automatic assembly operation.
4. Modification of bond testing equipment to cover Mark V-E size cores and the incorporation of bond testing into planned automated inspection equipment.
5. Automation of recent developments in the field of nondestructive testing and the extension thereof to development and production programs on V-B, V-E, and hot die sizing.

d. Zirconium Cladding

1. Conduct preliminary development work on the feasibility of hot pressure bonding Zircaloy-2 cladding to uranium core specimens. Prepare, on a best efforts basis, samples of direct zirconium to uranium bonding, with a nickel-aluminum interface.
2. Undertake the canning of twelve fuel tubes in zirconium, ten of which are to be acceptable for reactor use. The canning process will consist of etching and nickel plating the cores, assembling the cores in the tubing with a layer of aluminum foil between the core and the zirconium parts, and hot pressing the assembly to attempt to obtain bonding between all the metals.

e. Recovery of Ribbed Elements

Perform development work on recovery of Mark V-B IF ribbed elements accomplishing delivery of 2,500 re-canned cores to the Savannah River Plant prior to August 31, 1963, and an additional 2,500 prior to September 30, 1963.

f. Oxidation of Scrap

Undertake, on a best efforts basis, a program to convert to oxide approximately two hundred pounds of scrap uranium and uranium carbide.

g. Cladding of Dingt Cores

Clad experimental dingt Mark V-E IF cores and deliver 120 in June and 240 in August 1963 to the Savannah River Plant.

[REDACTED]

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED MAY 1, 1963, UNDER
MODIFICATION NO. 34

4. DU PONT TOOLING

The Contractor shall furnish all materials, services and supplies necessary to perform all work authorized by the Commission in furtherance of the Du Pont tooling program.

5. THORIUM

Complete the thorium program initiated under Modification No. 31 to the Contract. Strip Al cladding from approximately 3,900 pounds of reject VII-T slugs (from the Savannah River Plant). Machine and clad approximately 9,500 additional thorium metal slugs for delivery to the Savannah River Plant by September 30, 1963; also machine thorium rod stock sufficient to produce an additional 2,000 Mark VII-T elements.

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U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

5

Modification No. 33
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR

Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO

Amend scope of work and other
provisions of the contract.

EFFECTIVE DATE

March 1, 1963

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>SROO</u>	<u>NYOO</u>	<u>TOTAL</u>
Previous Direct Cost (Modification No. 32)	\$22,702,786	\$3,951,805	\$26,654,591
This Modification Net Increase	<u>2,402</u>	<u>-</u>	<u>2,402</u>
New Total Direct Costs	<u>\$22,705,188</u>	<u>\$3,951,805</u>	<u>\$26,656,993</u>
Previous Fixed Fee	\$1,318,305	\$ 172,150	\$ 1,490,455
This Modification Decrease	<u>(2,402)</u>	<u>-</u>	<u>(2,402)</u>
New Total Fixed Fee	<u>\$1,315,903</u>	<u>\$ 172,150</u>	<u>\$ 1,488,053</u>
Total Est. Cost and Fixed Fee	<u>\$24,021,091</u>	<u>\$4,123,955</u>	<u>\$28,145,046</u>
Total Obligated 3/1/63			<u>\$28,145,046</u>

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mittal or the disclosure of its contents in any
manner to an unauthorized person is prohibited.~~

USDOE 017275

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 33
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 17th day of May, 1963, effective March 1, 1963, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS; as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission involving the use and occupancy of the land and buildings of the Contractor on Cantiague Road in Hicksville, Long Island, New York; and:

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and:

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, as amended, is revised as of March 1, 1963, and is attached hereto and made a part hereof.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS, AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$26,656,993, exclusive of the Contractor's fixed fee. The Contractor's fixed fee, as set forth in paragraph 2., Article V, of the Contract is \$1,488,053. The estimated cost of the work, as described in paragraph 1. of the Article entitled SCOPE OF WORK for the period October 1, 1962, to September 30, 1963, is \$3,498,602, exclusive of the Contractor's fixed fee of \$197,263."
3. In subparagraph (d) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, delete the figure "\$199,665" and substitute therefor the figure "\$197,263."
4. Subparagraph (d) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

CONFORMED COPY

USDOE 017276

"(d) For the period October 1, 1962, through February 28, 1963, ninety percent (90%) of the fixed fee of \$83,195 shall become due and payable in monthly installments of \$14,975. For the period March 1, 1963, through September 30, 1963, ninety percent (90%) of the fixed fee of \$114,068 shall become due and payable in monthly installments of \$14,666."

5. Appendix "K," General Provisions, to Contract AT(30-1)-1293 is amended to delete subparagraph (a) Eight-Hour Law of 1912 - Overtime Compensation and substitute therefor the following new provision:

"(a) Work-Hours Act of 1962 - Overtime Compensation

This Contract, to the extent that it is of a character specified in the Work Hours Act of 1962 (Public Law 87-581, 76 Stat. 357-360) and is not covered by the Walsh-Healey Public Contracts Act (41 U.S.C. 35-45), is subject to the following provisions and to all other provisions and exceptions of said Work Hours Act of 1962.

1. No contractor or subcontractor contracting for any part of the contract work shall require or permit any laborer or mechanic to be employed on such work in excess of eight hours in any calendar day or in excess of forty hours in any workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times his basic rate of pay for all hours worked in excess of eight hours in any calendar day or in excess of forty hours in such workweek, whichever is the greater number of overtime hours.
2. In the event of any violation of the provisions of paragraph 1., the Contractor and any subcontractor responsible for such violation shall be liable to any affected employee for his unpaid wages. In addition, such Contractor or subcontractor shall be liable to the United States for liquidated damages. Such liquidated damages shall be computed, with respect to each individual laborer or mechanic employed in violation of the provisions of paragraph 1., in the sum of \$10 for each calendar day on which such employee was required or permitted to work in excess of eight hours or in excess of forty hours in a workweek without payment of the required overtime wages.
3. The Contracting Officer may withhold, or cause to be withheld, from any moneys payable on account of work performed by the Contractor or subcontractor the full amount of wages required by this Contract and such sums as may administratively be determined to be necessary to satisfy any liabilities of such Contractor or subcontractor for liquidated damages as provided in paragraph 2.

Modification No. 33
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. The Contractor agrees to insert the foregoing clauses 1., 2., and 3., and this clause 4., in all subcontracts."

6. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION
BY: /s/ R. C. Blair
TITLE: Manager, Savannah River Operations
Office

WITNESSES:
/s/ Jean Case
Hicksville, New York
(Address)

/s/ Milton Boll
Hicksville, New York
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
BY: /s/ D. B. Metz
TITLE: Manufacturing Manager, Sylcor Div.

I, J. M. Toohar, certify that I am Asst. Secretary
of Sylvania Electric Products Inc., named above; that
D. B. Metz who signed this Agreement on behalf of said
corporation, was then Mfg. Mgr. - Sylcor Division of said corporation, and
that this Agreement was duly signed for and in behalf of said corporation by
authority of its governing body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 8th day of May, 1963.

/s/ J. M. Toohar

CORPORATE SEAL

Those Listed Below

May 20, 1963

J. A. McFesly, Chief of Contracts
Contracts and Procurement Branch
Administrative Division
MODIFICATION NO. 33 TO CONTRACT AT(30-1)-1293 WITH
SYLVANIA ELECTRIC PRODUCTS INC.

AC:PS

Attached for your use are signed and/or conformed copies,
as indicated, of the subject modification. Appendix "F"
of the modification sets forth the scope of work to be
followed and is classified.

Attachments:
As stated

MEF Division (1 signed, 3 conformed)
TEP Division (2 conformed - including Appendix "F" (1 cy.)
Office of Chief Counsel (1 conformed - including Appendix "F")
Patent Branch, OCU (1 conformed - including Appendix "F")

Document transmitted herewith contains

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When requested, I will enclose and handle
any information disclosed.

USDOE 017274

A

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office
FINDINGS AND DETERMINATION

AUTHORIZATION FOR MODIFICATION OF COST-PLUS-FIXED-FEE CONTRACT

SYLOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.
Contract No. AT(30-1)-1293
Modification No. 33

The Atomic Energy Commission proposes to modify its cost-plus-fixed-fee contract with Sylcor Division, Sylvania Electric Products Inc. to amend the scope of work to be performed by the Contractor during the period October 1, 1962, through September 30, 1963.

I hereby find that a modification to the cost-plus-fixed-fee type contract is necessary for the following reasons:

1. Specifications for the production of metal units are not sufficiently definitive to permit entering an immediate unit-price arrangement.
2. Program requirements are subject to immediate change.
3. Continuous process development is required.
4. The revised estimated cost of the work under the contract, \$3,498,602, is considered reasonable.
5. The fixed fee adjustment is based on the previously applied rate of 6 percent of the estimated cost fee base and is considered to be fair and equitable.

Upon the basis of the findings set forth above, I hereby determine that it is impracticable to secure services of the kind and quality desired without the use of a cost-plus-fixed-fee Supplemental Agreement, and I hereby authorize the use of said Supplemental Agreement.

By: _____

R. C. Blair, Manager

Title: ~~Savannah River Operations Office~~

Date: MAY 2 1963

~~SECRET~~

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 33
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO Amend scope of work and other
provisions of the contract.

EFFECTIVE DATE March 1, 1963.

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>SROO</u>	<u>NYOO</u>	<u>TOTAL</u>
Previous Direct Cost (Modification No. 32)	\$22,702,786	\$3,951,805	\$26,654,591
This Modification Net Increase	<u>2,402</u>	<u>-</u>	<u>2,402</u>
New Total Direct Costs	<u>\$22,705,188</u>	<u>\$3,951,805</u>	<u>\$26,656,993</u>
Previous Fixed Fee	\$1,318,305	\$ 172,150	\$ 1,490,455
This Modification Decrease	<u>(2,402)</u>	<u>-</u>	<u>(2,402)</u>
New Total Fixed Fee	<u>\$1,315,903</u>	<u>\$ 172,150</u>	<u>\$ 1,488,053</u>
Total Est. Cost and Fixed Fee	<u>\$24,021,091</u>	<u>\$4,123,955</u>	<u>\$28,145,046</u>
Total Obligated 3/1/63			<u>\$28,145,046</u>

A. E. C. FILE COPY

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U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 33
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 19th day of May, 1963, effective March 1, 1963, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission"), and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS; as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission involving the use and occupancy of the land and buildings of the Contractor on Cantiague Road in Hicksville, Long Island, New York; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended:

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, as amended, is revised as of March 1, 1963, and is attached hereto and made a part hereof.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS, AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$26,656,993, exclusive of the Contractor's fixed fee. The Contractor's fixed fee, as set forth in paragraph 2., Article V, of the Contract is \$1,488,053. The estimated cost of the work, as described in paragraph 1. of the Article entitled SCOPE OF WORK for the period October 1, 1962, to September 30, 1963, is \$3,498,602, exclusive of the Contractor's fixed fee of \$197,263."
3. In subparagraph (d) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, delete the figure "\$199,665" and substitute therefor the figure "\$197,263."
4. Subparagraph (d) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

"(d) For the period October 1, 1962, through February 28, 1963, ninety percent (90%) of the fixed fee of \$83,195 shall become due and payable in monthly installments of \$14,975. For the period March 1, 1963, through September 30, 1963, ninety percent (90%) of the fixed fee of \$114,068 shall become due and payable in monthly installments of \$14,666."

5. Appendix "E," General Provisions, to Contract AT(30-1)-1293 is amended to delete subparagraph (a) Eight-Hour Law of 1912 - Overtime Compensation and substitute therefor the following new provision:

"(a) Work-Hours Act of 1962 - Overtime Compensation

This Contract, to the extent that it is of a character specified in the Work Hours Act of 1962 (Public Law 87-581, 76 Stat. 357-360) and is not covered by the Walsh-Healey Public Contracts Act (41 U.S.C. 35-45), is subject to the following provisions and to all other provisions and exceptions of said Work Hours Act of 1962.

1. No contractor or subcontractor contracting for any part of the contract work shall require or permit any laborer or mechanic to be employed on such work in excess of eight hours in any calendar day or in excess of forty hours in any workweek unless such laborer or mechanic receives compensation at a rate not less than one and one-half times his basic rate of pay for all hours worked in excess of eight hours in any calendar day or in excess of forty hours in such workweek, whichever is the greater number of overtime hours.
2. In the event of any violation of the provisions of paragraph 1., the Contractor and any subcontractor responsible for such violation shall be liable to any affected employee for his unpaid wages. In addition, such Contractor or subcontractor shall be liable to the United States for liquidated damages. Such liquidated damages shall be computed, with respect to each individual laborer or mechanic employed in violation of the provisions of paragraph 1., in the sum of \$10 for each calendar day on which such employee was required or permitted to work in excess of eight hours or in excess of forty hours in a workweek without payment of the required overtime wages.
3. The Contracting Officer may withhold, or cause to be withheld, from any moneys payable on account of work performed by the Contractor or subcontractor the full amount of wages required by this Contract and such sums as may administratively be determined to be necessary to satisfy any liabilities of such Contractor or subcontractor for liquidated damages as provided in paragraph 2.

Modification No. 33
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. The Contractor agrees to insert the foregoing clauses 1., 2., and 3., and this clause 4., in all subcontracts."

6. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF the parties hereto have executed this Modification as of the day and year first above written.

SYLVANIA ELECTRIC PRODUCTS INC.
~~UNITED STATES OF AMERICA~~
~~BY: U. S. ATOMIC ENERGY COMMISSION~~

BY: D. B. Metz
D. B. Metz

TITLE: Manufacturing Manager
Sylcor Division

UNITED STATES OF AMERICA
~~SYLVANIA ELECTRIC PRODUCTS INC.~~
BY: U. S. ATOMIC ENERGY COMMISSION

BY: R. C. Blair
R. C. Blair, Manager
TITLE: Savannah River Operations Office

WITNESSES:

Jean Case
Glicksville, New York
(Address)

Mich. Jell
Hicksville, N.Y.
(Address)

I, J. M. TOOLE, certify that I am ASS. SECRETARY
of Sylvania Electric Products Inc., named above; that

D. B. METZ who signed this Agreement on behalf of said corporation, was then MFG MGR - Sylcor Div. of said corporation, and that this Agreement was duly signed for and in behalf of said corporation by authority of its governing body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 8 day of MAY, 1963.

J. M. Toole

CORPORATE SEAL

Ram
Dn
RSH
JEC
Jm
JH
JW
JL

~~SECRET~~

1st Review Date: 4/9/63	Determination (Circle number)
Authority: EAD <input type="checkbox"/> ADD <input type="checkbox"/>	1. Classification Unchanged
Name: G. Slack	2. Classification changed to:
2nd Review Date: 4/2/63	3. Classification Unchanged
Authority:	4. Other: CG-ND 9-02
Name: [Signature]	

UNCLASSIFIED

May 29, 1963

DCF# 2322-H

Mr. R. C. Blair, Manager
 U. S. Atomic Energy Commission
 Savannah River Operations Office
 P. O. Box A
 Aiken, South Carolina

This document consists of 3 pages.
 No. of 3 copies. Series A

Attention: Mr. N. J. Donahue

Gentlemen:

As you analyze our latest proposal (P63-4) covering the recent changes in scope at Sylcor, we felt you might find the following data helpful.

We pointed out in our proposal letter that productivity has increased greatly at Sylcor. This is reflected in the cost per pound we are estimating for the Mark V-B IP production. We would like to submit this comparison of our current estimate with that of our previous proposal.

The attached chart and graph illustrate the point that the cost per pound of canning Mark V-B IP at this time is lower than our previous estimate, and we are forecasting further reductions in this contract period.

Very truly yours,

WRM/bm
 Attachments

W. R. Mandaro
 Plant Manager

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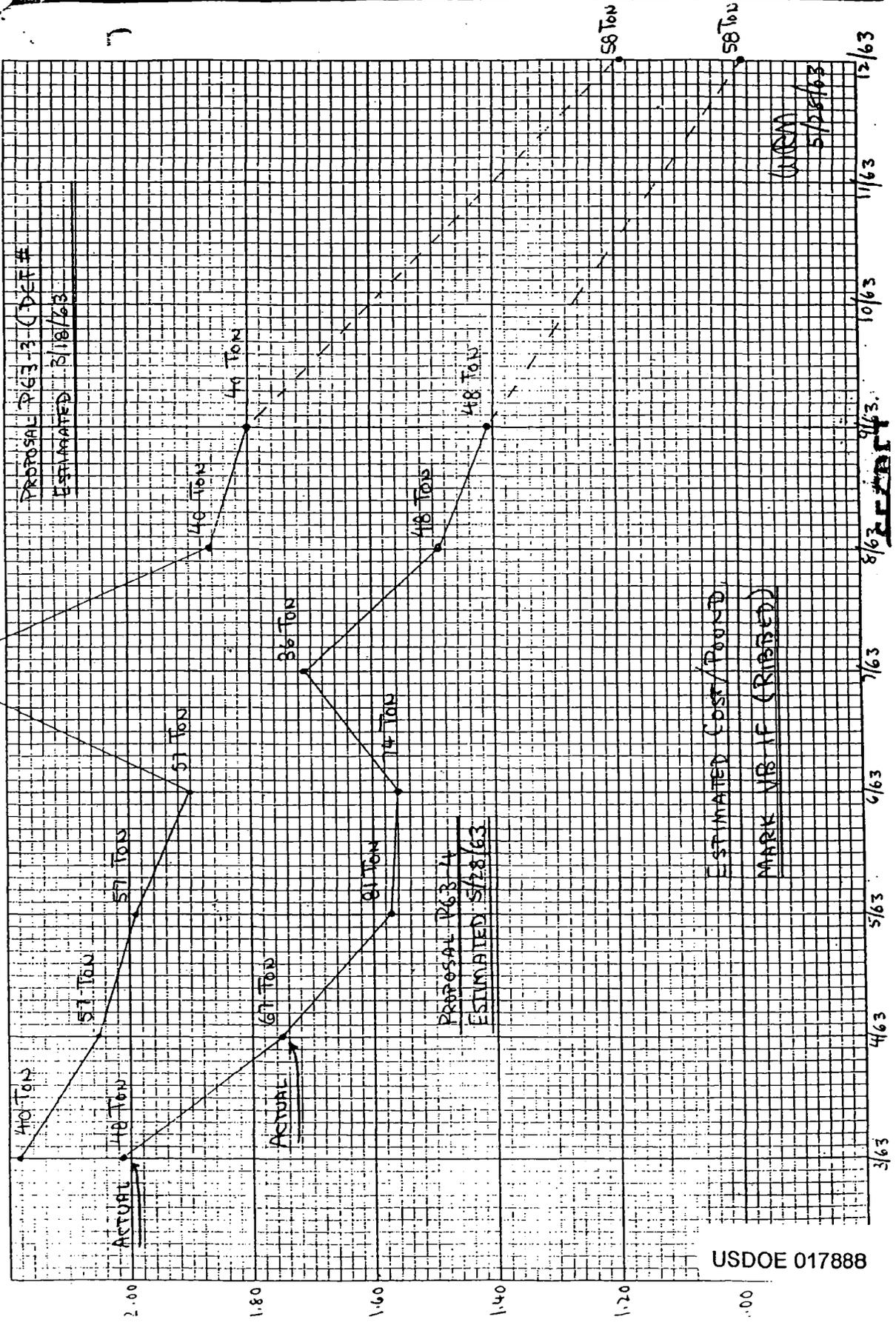
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USDOE 017886

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16 TON



PROPOSAL P63-3 (DEF#)

ESTIMATED 3/18/63

PROPOSAL P63-4

ESTIMATED 5/28/63

ESTIMATED COST/POUND

MARK UP IF (RIBBED)

UNION

5/28/63

USDOE 017888

Office Memorandum • UNITED STATES GOVERNMENT

TO : J. B. Hopkins, Director
Administrative Division
FROM : A. T. Morgan, Director
Budget & Finance Division

UNCLASSIFIED

DATE: JUN 14 1963

SUBJECT: REVIEW OF SYLCOR'S PROPOSAL P-63-4 DATED MAY 28, 1963

Document No. SR-1163

FB:MER:ac

This document consists of 5 pages,

We have reviewed Sylcor's proposal (P-63-4) which covers a revised scope of work for the five months period ending September 30, 1963, and submit the following comments, cost analysis, recommendation and contract finance data.

Comments and Cost Analysis

1. The change in scope for the five months period is as follows:
 - (a) Increase in Mark V-B canning from 420,000 to 570,000 pounds.
 - (b) Machine 2,000 thorium slugs.
 - (c) Perform development work on recovery of 5,000 inner ribbed Mark V-B fuel elements.
 - (d) Strip the cladding from 1,400 thorium slugs.
 - (e) Perform additional development work on zircaloy cladding by the hot pressure bonding method.
 - (f) Clad 360 Mark V-E dingot elements for experimental purposes.

With the exception of the Mark V-B increase, the other increases in scope are small.

To accomplish the increase in scope for the five months period requires an increase in cost as follows:

DEPARTMENT OF ENERGY SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date: 4/3/63	Determination (Circle Number)
Authority: EADPC/ADD	1. Classification Unchanged
Name: G.B. Slack	2. Classification changed to:
2nd Review Date: 4/3/63	3. Classification Canceled
Authority: ADD	4. Other: EG-NRP-2 9-00
Name: Vernon J. Darden	

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USDOE 017854

	March 20, 1963 Estimate P-63-3	May 28, 1963 Estimate P-63-4	Change + or -
Direct Labor	\$ 431,220	\$ 419,880	\$(11,340)
Direct Materials	362,280	390,760	28,480
Overhead	465,170	457,220	(7,950)
G & A	82,100	82,260	160
Total	<u>\$1,340,770</u>	<u>\$1,350,120</u>	\$ 9,350
Fee	80,446	81,008	562
Purchased Equipment	109,800	119,900	10,100
Total	<u>\$1,531,016</u>	<u>\$1,551,028</u>	<u>\$ 20,012</u>

The revised estimate reflects a considerable improvement in unit cost for Mark V-B for the contract year as compared to their estimate of March 20, 1963. Sylcor informed us that this is possible because of much faster results than had been anticipated from automation, improvement in material prices, etc. The increased cost for purchased equipment represents a reallocation of costs from prior months of approved projects.

A comparison of the total estimates for the year ending 9/30/63 is as follows. The estimates in P-63-4 reflect actual cost through April 1963.

Mark VII-A	\$ 439,704	\$ 439,704	\$ -
Mark V-B	2,032,994	2,089,494	56,500
Mark V-E	307,230	289,316	(17,914)
Thorium Canning	141,588	122,518	(19,070)
Development	302,012	313,522	11,510
Fabricated Equipment	195,152	177,870	(17,282)
Tooling	74,273	51,720	(22,553)
Purchased Equipment	199,319	199,300	(19)
Total Costs (inc. fee)	<u>\$3,692,272</u>	<u>\$3,683,444</u>	<u>\$(8,828)</u>
Fee Base			
Direct Labor	\$1,068,180	\$1,056,840	\$(11,340)
Direct Materials	893,530	922,010	28,480
Overhead	1,136,620	1,128,670	(7,950)
G & A	197,360	197,520	160
Adjustment (Thorium)	(7,960)	(7,960)	-
Total	<u>\$3,287,730</u>	<u>\$3,297,080</u>	<u>\$ 9,350</u>
Fee @ 6%	<u>\$ 197,263</u>	<u>\$ 197,825</u>	<u>\$ 562</u>

3,683,444
197,825
3,485,619

Unit Costs

	<u>12 Months</u>		<u>May to September</u>	
	<u>P-63-3</u>	<u>P-63-4</u>	<u>P-63-3</u>	<u>P-63-4</u>
<u>V-B</u>				
Estimated Cost	\$2,032,994	\$2,089,494	\$825,248	\$885,800
Production Lbs.	957,200	1,148,323	420,000	570,000
Unit Cost	\$2.12	\$1.82	\$1.96	\$1.55
<u>V-E</u>				
Estimated Cost	\$ 307,230	\$ 289,316		
Production Lbs.	108,000	108,000	Same	
Unit Cost	\$2.84	\$2.67		

As pointed out previously, Sylcor has informed us that this significant improvement in unit cost for both the V-B and V-E elements is due to improvement in material prices, earlier achievement of automation than previously anticipated, and other technological improvements.

Through the month of April, Sylcor has met or exceeded the production as established in their proposals which have been revised three times since October 1, 1962. With the exception of the months of March and April, their actual cost subject to fee has been very close to their estimates as follows:

	<u>Fee Base</u>		
	<u>Oct.-Nov.</u>	<u>Dec.-Feb.</u>	<u>Mar.-Apr.</u>
<u>Estimates</u>			
Direct Labor	\$174,890	\$279,940	\$182,130
Direct Material	138,250	238,290	154,710
Overhead	184,760	280,640	206,050
G & A	30,110	50,420	34,730
Total	<u>\$528,010</u>	<u>\$849,290</u>	<u>\$577,620</u>
<u>Actual</u>			
Direct Labor	\$176,054	\$272,932	\$180,560
Direct Materials	148,068	208,115	150,648
Overhead	175,279	316,230	191,054
G & A	29,807	49,843	37,609
Total	<u>\$529,208</u>	<u>\$847,120</u>	<u>\$559,871</u>

The underrun in March and April resulted primarily from an adjustment in Workmen's Compensation Insurance, which was not anticipated at the time of the preparation of the March 20, 1963 proposal.

~~SECRET~~

Recommendation

The Sylcor proposal should be accepted as submitted because a significant increase in Mark V-B scope is proposed with small increases in other activities and all this will be accomplished with a very small change in dollars.

Change in Obligations

Obligations under the contract should be decreased by \$8,828 computed as follows:

Net Cost Underrun	\$ (9,390)
Increase in Fee-	562
Net Decrease in Oblig.	\$ (8,828)

Contract Cover Sheet

The contract cover sheet should be changed to read as follows:

	<u>SROO</u>	<u>NYOO</u>	<u>Total</u>
Previous Direct Cost (Mod. 33)	\$22,705,188	\$3,951,805	\$26,656,993
This Modification Decrease	(9,390)	-0-	(9,390)
New Total Direct Costs	<u>\$22,695,798</u>	<u>\$3,951,805</u>	<u>\$26,647,603</u>
Previous Fixed Fee	\$ 1,315,903	\$ 172,150	\$ 1,488,053
This Mod. Increase	562	-0-	562
New Total Fixed Fee	<u>\$ 1,316,465</u>	<u>\$ 172,150</u>	<u>\$ 1,488,615</u>
Total Estimated Cost and Fixed Fee	<u>\$24,012,263</u>	<u>\$4,123,955</u>	<u>\$28,136,218</u>
Total Obligated 6/30/63			<u>\$28,136,218</u>

Contract Articles

1. Paragraph 1, Estimate of Cost and Fixed Fee, of Article IV - Estimates of Costs, Obligation of Funds, and Fixed Fee should be changed to read as follows:

- (1) Estimate of Cost and Fixed Fee - The presently estimated cost of the work under the contract is \$26,647,603, exclusive of the contractor's fixed fee. The contractor's fixed fee as set forth in Paragraph 2, Article V of the contract is \$1,488,615. The estimated cost of the work as described in Paragraph 1 of the Article entitled Scope of Work for the period October 1, 1962 to September 30, 1963 is \$3,485,619, exclusive of the contractor's fixed fee of \$197,825.

28136218
29145046

J. S. Hopkins

-5-

JUN 14 1963

2. In subparagraph (d) of Paragraph 2, Fixed Fee, of Article V - Allowable Cost and Fixed Fee, change fee to read \$197,825.
3. Subparagraph (d) of Paragraph 2, Payment of Fixed Fee, of Article VI- Payments should be changed to read as follows:

(d) Ninety percent (90%) of the fixed fee of \$197,825 shall be due and payable in monthly installments as follows:

For period October 1, 1962 to February 28, 1963	\$14,975
For period March 1, 1963 to April 30, 1963	14,666
For period May 1, 1963 to September 30, 1963	14,767

cc: J. J. Wise, Asst. Manager for Admin.
N. J. Donahue, T&P Division
E. W. Stark, Accounting Branch
R. A. Messick, Contract Fin. Branch

~~SECRET~~

USDOE 017858

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 34
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Amend scope of work and other provisions
of the contract.

EFFECTIVE DATE : May 1, 1963

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>SROO</u>	<u>NYOO</u>	<u>TOTAL</u>
Previous Direct Cost (Modification No. 33)	\$22,705,188	\$3,951,805	\$26,656,993
This Modification Net Decrease	<u>(9,390)</u>	<u>-0-</u>	<u>(9,390)</u>
New Total Direct Costs	<u>\$22,695,798</u>	<u>\$3,951,805</u>	<u>\$26,647,603</u>
Previous Fixed Fee	\$ 1,315,903	\$ 172,150	\$ 1,488,053
This Modification Increase	562	-0-	562
New Total Fixed Fee	<u>\$ 1,316,465</u>	<u>\$ 172,150</u>	<u>\$ 1,488,615</u>
Total Estimated Cost and Fixed Fee	<u>\$24,012,263</u>	<u>\$4,123,955</u>	<u>\$28,136,218</u>
Total Obligation 6/30/63			<u>\$28,136,218</u>

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USDOE 017268

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 34
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 23rd day of August, 1963, effective May 1, 1963, unless otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission involving the use and occupancy of the land and buildings of the Contractor on Cantiague Road in Hicksville, Long Island, New York; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, as amended, is revised as of May 1, 1963, and is attached hereto and made a part hereof.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS, AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$26,647,603, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., Article V of the Contract, is \$1,488,615. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work, for the period October 1, 1962, to September 30, 1963, is \$3,485,619, exclusive of the Contractor's fixed fee of \$197,825."
3. In subparagraph (d) of paragraph 2., Fixed Fee of Article V - ALLOWABLE COST AND FIXED FEE, delete the figure "\$197,263" and substitute therefor the figure "\$197,825."

Modification No. 34
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. Subparagraph (d) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

"(d) Ninety percent (90%) of the fixed fee of \$197,825 shall be due and payable in monthly installments as follows:

For the period October 1, 1962, to February 28, 1963	\$14,975
For the period March 1, 1963, to April 30, 1963	14,666
For the period May 1, 1963, to September 30, 1963	14,767"

5. Appendix "E," General Provisions to Contract AT(30-1)-1293 is amended to delete Provision 11.(d), Nondiscrimination in Employment, and substitute therefor the following revised provision, effective upon execution of this modification.

"(d) Nondiscrimination in Employment

During the performance of this Contract, the Contractor agrees as follows:

- (1) The Contractor will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, creed, color, or national origin. Such action shall include, but not be limited, to the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of this nondiscrimination clause.
- (2) The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, creed, color, or national origin.
- (3) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other Contract or understanding, a notice, to be provided by the agency Contracting Officer, advising the said labor union or workers' representative of the Contractor's commitments under this section, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

Modification No. 34
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

- (4) The Contractor will comply with all provisions of Executive Order No. 10925 of March 6, 1961, as amended, and of the rules, regulations, and relevant orders of the President's Committee on Equal Employment Opportunity created thereby.
 - (5) The Contractor will furnish all information and reports required by Executive Order No. 10925 of March 6, 1961, as amended, and by the rules, regulations, and orders of the said Committee, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Committee for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
 - (6) In the event of the Contractor's noncompliance with the nondiscrimination clauses of this Contract or with any of the said rules, regulations, or orders, this Contract may be cancelled, terminated, or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 10925 of March 6, 1961, as amended, and such other sanctions may be imposed and remedies invoked as provided in the said Executive Order or by rule, regulation, or order of the President's Committee on Equal Employment Opportunity, or as otherwise provided by law.
 - (7) The Contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the President's Committee on Equal Employment Opportunity issued pursuant to section 303 of Executive Order No. 10925 of March 6, 1961, as amended, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States."
6. All other terms and conditions of the Contract remain unchanged.

Modification No. 34
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of
the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION
BY: /s/ R. C. Blair
TITLE: Manager, Savannah River Operations
Office

WITNESSES:
/s/ M. Boll
Hicksville, New York
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
BY: /s/ D. B. Metz
TITLE: Manufacturing Manager
Sylcor Division

/s/ J. Case
Hicksville, New York
(Address)

I, J. M. Toohar, certify that I am Asst. Secretary
of Sylvania Electric Products Inc., named above; that D. B. Metz
who signed this Agreement on behalf of said corporation, was then Mfg. Mgr.
Sylcor Division of said corporation, and that this Agreement was duly
signed for and in behalf of said corporation by authority of its governing body
and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 6th day of August,
1963.

(CORPORATE SEAL) /s/ J. M. Toohar

A

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office
FINDINGS AND DETERMINATION

AUTHORIZATION FOR MODIFICATION OF COST-PLUS-FIXED-FEE CONTRACT

SYLOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.
Contract AT(30-1)-1293
Modification No. 34

The Atomic Energy Commission proposes to modify its cost-plus-fixed-fee contract with Sylcor Division, Sylvania Electric Products Inc. to amend the scope of work to be performed by the Contractor during the period October 1, 1962, through September 30, 1963.

I hereby find that a modification to the cost-plus-fixed-fee type contract is necessary for the following reasons:

1. Specifications for the production of metal units are not sufficiently definitive to permit entering an immediate unit-price arrangement.
2. Program requirements are subject to immediate change.
3. Continuous process development is required.
4. The revised estimated cost of the work under the contract, \$3,485,619, is considered reasonable.
5. The fixed fee adjustment is based on the previously applied rate of six percent of the estimated cost fee base and is considered to be fair and equitable.

Upon the basis of the findings set forth above, I hereby determine that it is impracticable to secure services of the kind and quality desired without the use of a cost-plus-fixed-fee Supplemental Agreement, and I hereby authorize the use of said Supplemental Agreement.

BY: _____

R. C. Blair, Manager
Savannah River Operations Office

TITLE: _____

DATE: _____

AUG 23 1963

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 34
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 23rd day of August, 1963, effective May 1, 1963, unless otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission involving the use and occupancy of the land and buildings of the Contractor on Cantiague Road in Hicksville, Long Island, New York; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, as amended, is revised as of May 1, 1963, and is attached hereto and made a part hereof.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS, AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$26,647,603, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., Article V of the Contract, is \$1,488,615. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work, for the period October 1, 1962, to September 30, 1963, is \$3,485,619, exclusive of the Contractor's fixed fee of \$197,825."
3. In subparagraph (d) of paragraph 2., Fixed Fee of Article V - ALLOWABLE COST AND FIXED FEE, delete the figure "\$197,263" and substitute therefor the figure "\$197,825."

A. E. C. FILE COPY

4. Subparagraph (d) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

"(d) Ninety percent (90%) of the fixed fee of \$197,825 shall be due and payable in monthly installments as follows:

For the period October 1, 1962, to February 28, 1963	\$14,975
For the period March 1, 1963, to April 30, 1963	14,666
For the period May 1, 1963, to September 30, 1963	14,767"

5. Appendix "E," General Provisions to Contract AT(30-1)-1293 is amended to delete Provision 11.(d), Nondiscrimination in Employment, and substitute therefor the following revised provision, effective upon execution of this modification.

"(d) Nondiscrimination in Employment

During the performance of this Contract, the Contractor agrees as follows:

- (1) The Contractor will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, creed, color, or national origin. Such action shall include, but not be limited, to the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Contracting Officer setting forth the provisions of this nondiscrimination clause.
- (2) The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, creed, color, or national origin.
- (3) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other Contract or understanding, a notice, to be provided by the agency Contracting Officer, advising the said labor union or workers' representative of the Contractor's commitments under this section, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

Modification No. 34
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

- (4) The Contractor will comply with all provisions of Executive Order No. 10925 of March 6, 1961, as amended, and of the rules, regulations, and relevant orders of the President's Committee on Equal Employment Opportunity created thereby.
- (5) The Contractor will furnish all information and reports required by Executive Order No. 10925 of March 6, 1961, as amended, and by the rules, regulations, and orders of the said Committee, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Committee for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Contractor's noncompliance with the nondiscrimination clauses of this Contract or with any of the said rules, regulations, or orders, this Contract may be cancelled, terminated, or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 10925 of March 6, 1961, as amended, and such other sanctions may be imposed and remedies invoked as provided in the said Executive Order or by rule, regulation, or order of the President's Committee on Equal Employment Opportunity, or as otherwise provided by law.
- (7) The Contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the President's Committee on Equal Employment Opportunity issued pursuant to section 303 of Executive Order No. 10925 of March 6, 1961, as amended, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States."

6. All other terms and conditions of the Contract remain unchanged.

Modification No. 34
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: [Signature]
R. C. Blair, Manager

TITLE: Savannah River Operations Office

WITNESSES:

M. Free
Blacksville, N.Y.
(Address)

J. Case
Blacksville, N.Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.

BY: [Signature]
D. B. Metz

TITLE: Manufacturing Manager
Sylcor Division

I, J. M. TOOPER, certify that I am ASS. SECRETARY
of Sylvania Electric Products Inc., named above; that D. B. METZ
who signed this Agreement on behalf of said corporation, was then MEMBER
Sylcor Div. of said corporation, and that this Agreement was duly
signed for and in behalf of said corporation by authority of its governing body
and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 6th day of Aug.,
1963.

(CORPORATE SEAL)

[Signature]

COPY

COPY

COPY

USAEC
R. C. BLAIR
AUGUSTA, GA.

SEPTEMBER 27, 1963

D. B. METZ, SYLVANIA ELECTRIC PRODUCTS INC.
CANTIAGUE ROAD, HICKSVILLE, LONG ISLAND, NEW YORK

File

PENDING COMPLETION OF OUR REVIEW OF YOUR PROPOSAL AND NEGOTIATIONS OF AN APPROPRIATE MODIFICATION TO CONTRACT AT(30-1)-1293, AS AMENDED, YOU ARE AUTHORIZED TO PROCEED WITH THE WORK PROGRAMS OUTLINED IN YOUR SEPTEMBER 11, 1963, PROPOSAL AS AMENDED BY YOUR LETTER OF SEPTEMBER 20, 1963. IT IS UNDERSTOOD THAT THE PERFORMANCE OF THE WORK WILL BE IN ACCORDANCE WITH THE APPLICABLE TERMS AND CONDITIONS OF CONTRACT AT(30-1)-1293, AS AMENDED. FAILURE TO AGREE ON AN APPROPRIATE FIXED FEE FOR THE WORK WILL BECOME A DISPUTE AND WILL BE RESOLVED UNDER THE DISPUTES CLAUSE OF THIS CONTRACT. PENDING EXECUTION OF AN APPROPRIATE CONTRACT MODIFICATION, INTERIM FUNDS IN THE AMOUNT OF \$840,000, INCLUDING \$30,000 FOR CAPITAL EQUIPMENT, ARE OBLIGATED FOR CONTINUED PERFORMANCE OF THE WORK. THIS INCREASE BRINGS THE TOTAL AMOUNT OBLIGATED UNDER THE CONTRACT TO \$28,976,218.

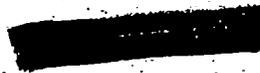
PLEASE ACKNOWLEDGE YOUR ACCEPTANCE BY RETURN TELETYPE. AC:RAMcF

bcc: Manager's Office
T&P Division
B&F Division
Office of Chief Counsel
Patent Branch, OCC

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Typed 9-27-63 - 9:21 a.m.

USDOE 017227

A



The Commission of Atomic Energy
[Redacted]

36

WSRC DECLASSIFICATION REVIEW	
1st Review Date: <u>4/28/84</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> ADCX <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>H. Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/84</u>	
Authority: <u>ADD</u>	3. Classification Cancelled
Name: <u>provided for in paragraph 1. of Article I of Modification No. 29 of Contract No. AT(30-1)-1293, this Appendix "B" describes the scope of work to be performed by the Contractor during the period October 1, 1963, through September 30, 1964.</u>	

SR-A-142

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED OCTOBER 1, 1963, UNDER
MODIFICATION NO. 35

- 1. PRODUCTION
- A. MARK V-B AND MARK V-E (Inner-Fuel)

The Contractor shall manufacture and furnish to the Commission Mark V-B and Mark V-E slugs at monthly tonnages as follows:

	Mark V-B (Tons) <u>Integral Rib</u>	Mark V-E (Tons) <u>Integral Rib</u>
October 1963	57	27
November 1963	41	27
December 1963	44	23
January 1964	48	23
February 1964	44	23
March 1964	46	23
April 1964	47	0
May 1964	44	0
June 1964	48	0
July 1964	12	0
August 1964	42	0
September 1964	42	0

B. THORIUM

Complete the canning and delivery of 11,500 Mark VII-T slugs for irradiation at the Savannah River Plant.

II. PROGRAM DEVELOPMENT

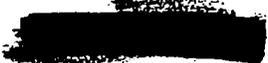
A. ELEMENT DEVELOPMENT

1. Long Slugs

Develop a process for canning Mark V-B and Mark V-E IF and OF Elements up to 16" in length by the hot pressure bonding process. Both impact extrusions and tubing will be investigated for cladding. SROO Response to FOIA (SR) - 04-028



GROUP 1
EXCLUDED FROM AUTO-
MATIC DOWNGRADING
AND DECLASSIFICATION.



Cyfe 5A & 10A Electric
7/27/84

This program shall include the establishment of standards, specifications and operating procedures and all necessary research, development, canning and data accumulation. Also, qualification and reactor test slugs will be made.

2. Added Rib

Continue development of the canning of Mark V-B IF elements with added ribs. Investigate the use of other types of aluminum for the rib and changes in the physical structure of the rib.

This program shall include the establishment of standards, specifications and operating procedures and all necessary research, development, canning and data accumulation. Also, qualification and reactor test slugs will be made.

3. Tube Cladding

Study the effects of the use of tubing as cladding for Mark V-B and V-E IF hot pressure bonded slugs.

4. Recovery of Mark V-E

Develop a recovery program to reclaim reject Mark V-E IF slugs and reuse the cores. Set up standards, specifications and operating procedures, whereby reject slugs may be declad and reprocessed through the HPB process.

B. TOOLING AND CLADDING MATERIALS

1. Furnace Tooling

Investigate potential improvements in quality and economy attainable through the replacement of Inconel X by such metals as AF71 or Inconel for furnace tooling, such as mandrels, dies and vacuum pots. Make items of promising materials and test them in the HPB process.

2. Cladding

Investigate potential advantages of low alloys of aluminum as cladding material. Test the most promising materials, such as aluminum with additives of beryllium or germanium, in the HPB process, for further evaluation at SRP.

C. INDUCTION HEATING

1. Heat Pattern Control

Run a series of experiments on HPB induction furnaces to determine actual heat patterns and provide a consistent improved control of the heat applied to the slug.

Investigate the possible use of scanning equipment which will designate the temperature of the die as it leaves the furnace, thereby offering additional improvement of heat pattern control.

2. Cores with Anodic Etch

Investigate possible improvement of HPB strengths by the use of anodic etching of cores before plating and the rapid heat-up cycle attainable with induction furnaces.

D. NONDESTRUCTIVE TESTING

1. Eutectic Prevention

Investigate new methods for the detection of Mark V-B and V-E slugs that have been overheated during the pressing cycle, such as the use of magnetic and hysteresis effects and the chemical test which showed promise with Mark VII-A slugs.

2. Nickel Plate Control

Continue investigation of new types of nickel detection and measurement, such as the magnetic probe, to provide a closer control of the nickel plate on cores.

3. Uranium Metal Quality

Refine and test ultrasonic equipment for potential use in the detection of metal quality rejects before plating.

4. Aluminum Metal Quality

Investigate methods of improving the detection of metal quality rejects in aluminum cladding components before they are used.

[REDACTED]

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED OCTOBER 1, 1963, UNDER
MODIFICATION NO. 35

III. DU PONT TOOLING

The Contractor shall furnish all materials, services and supplies necessary to perform all work authorized by the Commission in furtherance of the Du Pont Tooling Program.

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SYLVANIA ELECTRIC PRODUCTS INC.
SYLCOR DIVISION

Contract No. AT(30-1)-1293

APPENDIX "A"
Revised October 1, 1963

PERSONNEL PRACTICES

I. GENERAL PROVISIONS

This Appendix "A" sets forth the current personnel policies, wage and salary practices, employee benefit programs, travel, transportation, subsistence and moving expenses, and miscellaneous expenses and allowances approved as allowable costs under Contract No. AT(30-1)-1293.

The provisions included hereunder reflect regularly established policies and practices of the Contractor, modified only to meet the particular requirements of the Contract and approved by the Commission, and shall be administered in accordance with the Contractor's regular procedures. Reimbursement for items of cost pertaining to the personnel practices and procedures not specifically covered below shall be in accordance with this Contractor's published policies and procedures or consistent with the Contractor's established commercial practices and approved by the Contracting Officer.

This Appendix "A" may be modified from time to time, in whole or in part, without formal Contract modification by mutual written agreement between the Commission and the Contractor.

II. ABSENCES

A. Holidays

The Contractor recognizes nine (9) paid holidays in each calendar year.

Holidays falling on Sunday will be observed the following Monday.
Holidays falling on Saturday will be observed the preceding Friday.

B. Vacations

Employees of the Contractor who have, or will have, on July 1 of the current year the following records of continuous service, may receive paid vacations in accordance with the following schedule:

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<u>Length of Service</u>	<u>Hourly Employee</u>	<u>Salary Employee</u>
6 months but less than 1 year	20 hours	1 week
1 year but less than 3 years	40 hours	2 weeks
3 years but less than 10 years	80 hours	2 weeks
10 years but less than 25 years	120 hours	3 weeks
25 years or more	160 hours	4 weeks

A week's pay in lieu of one week's vacation may be granted to employees who are eligible for three or four weeks' vacation.

Additional prorated vacation payments may be made to employees eligible for vacation pay based on the following lengths of service:

Hourly Employees

More than 26 weeks but less than 52 weeks	1/26 of 20 hours for each week above 26
More than 2 years 12 weeks but less than 3 years	1 hour for each week above 2 years 12 weeks

Salaried Employees

More than 26 weeks but less than 52 weeks	1/26 of 1 week's pay for each week above 26
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The above vacation allowances are non-cumulative and shall be taken prior to December ~~25~~ of the current vacation year or forfeited.

31 *RPM* 2/14/64 *JM* 2/29/64
Shift premium if applicable, may be included in vacation payments. If the majority of the employees have actually worked on a schedule averaging 48 hours or more per week for the first six months of a calendar year, vacation payments may be based on a 48-hour per week straight time basis.

An extra day's vacation is allowed for each paid holiday falling within the vacation period. Payment for such holiday may be granted to hourly or non-exempt salaried employees.

Employees who leave the Company prior to July 1 of the current year may receive a vacation accrual equal to the number of weeks on the payroll since last July 1, divided by 52, multiplied by the normal vacation pay for an employee with their record of continuous service. Employees who leave the Company after July 1 who have not received the vacation pay to which they are eligible as of July 1, will receive such payments at the time of separation.

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C. Sick Leave

1. Salaried Employees

Leave with pay may be granted to employees who are absent from work because of personal illness or injury. The amount of such leave granted shall be in accordance with established practices consistently applied throughout the Contractor's organization based upon the following schedule:

<u>Employee's Service</u>	<u>Cumulative Time Off in Any 12-Month Period</u>
Less than 6 months	1 week
6 months to 1 year	2 weeks
1 year to 2 years	4 weeks
2 years to 25 years	4 weeks plus 2 weeks for each full year of continuous service beyond 2 years up to maximum of 50 weeks
More than 25 years	50 weeks

No reimbursement shall be made for unused sick leave to employees upon termination of employment.

2. Hourly Employees

Excused leave with pay may be granted full-time employees who are absent from work for reasons of personal illness, injury, or disability based upon the following provisions:

Full-time employees with one or more years of continuous service who are on the payroll as of January 1 of any calendar year shall be credited with 40 hours of sick leave allowance for that calendar year.

Full-time employees who are not on the payroll as of January 1 but who returned to work from layoff or leave of absence subsequent to January 1 shall be credited for the balance of the calendar year with an amount of sick leave allowance equal to the number of full calendar months remaining in the calendar year times 3-1/3 hours.

Full-time employees who complete their first year of continuous service subsequent to January 1 shall be credited for the balance of the calendar year with an amount of sick leave allowance

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equal to the number of full calendar months remaining in the calendar year times 3-1/3 hours.

Full-time employees who complete their first year of continuous services on or before the 15th day of the month will be credited with a full 3-1/3 hours of sick leave allowance for that month. Allowances for regular, part-time employees will be reduced proportionately, provided they are employed to work a minimum weekly work schedule of 20 hours or more.

Unused sick leave will be accumulated from year to year up to a maximum of 480 hours. In no case will unused sick leave pay be reimbursed to employees, including separation from the company, for any reason.

Sick leave pay shall be computed at the employee's straight-time hourly rate in effect on the first full or partial day of absence. Shift premium may be added to such straight-time sick leave for employees who, if they worked, would have been assigned to a premium shift.

Employees receiving sick leave pay will not be entitled to Non-Occupational Insurance Benefits for the same period of absence. The number of weeks of Non-Occupational Disability Insurance Benefits to which an employee is entitled shall be reduced by the equivalent number of consecutive 40-hour increments (or fractional portion thereof) of sick leave pay received. Non-Occupational Disability Insurance Benefits will commence at the termination of sick pay if the employee is still unable to return to work due to personal illness or injury and has been disabled for more than seven (7) consecutive calendar days.

Payments received under Workmen's Compensation, cost reimbursed in whole or in part by the Commission, shall be deducted from the sick leave pay received by an employee during any period such payments are received. Sick leave pay will be the difference between the weekly Workmen's Compensation payment and the employee's weekly straight-time wage in effect at the time an occupational disability occurs. When such partial sick leave payments are made, the number of hours to be charged against an employee's sick leave allowance will be determined by dividing the employee's straight-time earnings into the appropriate amount of weekly sick leave pay to be granted.

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D. Other Absences

1. Court Duty

Employees may be allowed time off without loss of straight-time pay for required jury duty or for required appearance at a court trial.

- a. Hourly and Non-Exempt Salaried Employees will receive the difference between fees received from the court and their normal pay for an eight-hour day.
- b. Exempt Salaried Employees will be paid their normal salary in addition to court fees.

2. Marriage

When an employee elects to be married, he may be granted time off as follows:

- a. Hourly Employees: Up to one week off without pay.
- b. Salaried Employees: Less than 6 months service: Up to one week off without pay. Six months service or more: Up to one week with pay.

3. Death in the Immediate Family

Any employee may be granted up to three working days off with pay because of the death of the employee's spouse, father, mother, son, daughter, brother or sister, mother-in-law or father-in-law.

4. Required Military Duty

Time off for required military reserve duty, not to exceed two weeks during any twelve-month period may be granted to:

Hourly Employees - without pay

Salaried Employees

- (a) Less than six (6) months service - without pay
- (b) With more than (6) months service, the difference, if any between their salary base rate and their military pay for the period.

All employees with six (6) months or more of continuous service

who are ordered to active duty for periods of not less than six (6) months duration may receive the equivalent of one (1) month's pay upon release from employment to perform such duty unless he enlists while on an approved occupational deferment.

5. Required Selective Service Examination

Time off with pay may be granted to employees required to visit military examination centers for the purpose of taking preliminary or final type examinations. The amount paid to non-exempt employees shall not exceed eight (8) hours of straight-time pay, including shift premium, if any.

6. Personal Reasons

Time off may be granted to employees absent for personal reasons. Time off for personal reasons may be granted to hourly employees only on a non-pay basis. Non-exempt Plan B employees with six or more months of continuous service may be paid for time off not to exceed five days per year. Exempt Plan A employees with six or more months of continuous service may be paid for time off at the discretion of the Manufacturing Manager or, in his absence, the person acting in his behalf. When such time off exceeds two weeks, additional time off shall come under provisions of II. D.7., below.

7. Leave of Absence

A leave of absence without pay may be granted to employees who are absent for two or more weeks but not to exceed 18 months. Seniority or other benefits shall not be accrued during leaves of absences granted under this section.

III. WAGE AND SALARY ADMINISTRATION

A. Executive Compensation

Executive compensation including bonuses and other remunerations will, for cost-reimbursement purposes, not exceed a pro rata share of the equivalent of \$30,000 per annum for any one executive. The determination of allowable related costs based on compensations paid will also be determined on the basis of the foregoing limitation. In addition, prior Commission approval shall be obtained on the establishment or adjustment of single rates or rate ranges which exceed \$25,000 per year and on any individual salary action which involves a total compensation of \$25,000 or more per year.

B. Salary Schedules

Employees whose wages or salaries are cost-reimbursed under the Contract shall be employed in the job classification, grade and salary ranges approved under Schedules I and II attached hereto. Current organization charts, job descriptions and appropriate wage and salary data will be filed with the Commission in support of approved job classifications, grades and wage and salary ranges. Cost of living and general wage and salary adjustments require the prior approval of the Commission.

C. Increases and Promotions

1. Salaried Employees

It is the policy of the Contractor to base the employee's salary on his production and accomplishments in terms of the requirements of his job classification and the rate range for the classification. Reclassification, promotions and merit raises may be made at the discretion of the Contractor in accordance with established practices and procedures. Salaried employees may be considered for merit increases in accordance with the following schedule.

<u>Employee's Place in Rate Range</u>	<u>Interval Between Merit Increases</u> <u>Salaried Employees</u>	
	<u>Non-Exempt</u>	<u>Exempt</u>
Below mid-point of salary range	6 months	12 months
Above mid-point, not immediately promotable	12-18 months	18-24 months
Above mid-point, immediately promotable	6 months	12 months

A non-exempt salaried employee's job performance shall be reviewed semi-annually and he may receive an increase of up to 5% of his base rate at each semi-annual review. Merit increases for exempt salaried employees shall not be granted less than one year from the preceding merit or promotional increase except in unusual cases, and in no case shall they exceed 10% per year. Exceptions may be granted only with the prior approval of the Commission. No merit increase shall be given in excess of the established maximum rate for the position of the exempt or non-exempt salaried employee.

2. Hourly Employees

Merit raises within the appropriate labor grade may be given once every three calendar months. In unusual circumstances a merit raise may be given after two calendar months have elapsed after a previous merit increase. New hires may receive a merit increase at the conclusion of a 45-day probationary period. New hires with trainee classification may be promoted to their regular classification and brought to their first step of the appropriate labor grade at the conclusion of a 45-day probationary period.

D. Leadman Premium (Hourly Employees)

An employee officially designated as a "Leadman" may be paid a 10% premium in addition to his hourly rate.

E. Shift Differential

Premium pay of 10% of straight time and overtime earnings will be paid for work on shifts commencing outside the hours of 7:00 a.m. to 9:00 a.m.

F. Compensation for Premium Time - Overtime and Holiday Work

As deemed essential to the performance of Contract work, the Contractor may authorize occasional overtime. Work weeks in excess of 40 hours scheduled for more than four consecutive weeks shall require prior approval of the Commission. Payments for overtime work shall be in accordance with the Federal Wage and Hour Law and the Contractor's established pay practices.

Regular employees may receive their regular straight time pay, not to exceed eight hours (including shift premium if applicable) for unworked official holidays.

If a non-exempt salaried or hourly employee is required to work on an official holiday, he will be compensated for the hours worked at one and one-half times his normal rate of pay including shift differential in addition to the basic eight hours holiday pay.

G. Report-in Pay

An employee who reports to work for his scheduled hours will receive full pay from such hours (not to exceed 8) for that day even though idle or sent home early because of delay or shortage or other reasons beyond his control, except that no such pay shall be made in cases where the Company's failure to provide work is due to power failure, fire, flood, weather conditions, or other conditions beyond the Company's control.

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H. Call-in Pay (Non-exempt Salaried and Hourly Employees)

Employees who are called in for emergency work outside their regularly scheduled hours may be paid at overtime rates for such hours worked or a minimum of four hours straight time, whichever is greater.

I. Separation Pay

1. Separation Pay in Lieu of Notice

Employees with six (6) months or more of continuous service who are permanently and involuntarily separated without prejudice will receive notice or separation pay in lieu of notice as indicated below:

- a. Hourly Employees - One (1) week's notice or one (1) week's pay at base rate, not to exceed 40 hours.

Should an hourly paid employee be separated because of lack of work while assigned to commercial work at the Hicksville Plant and "bump" through seniority rules an employee on Contract work, it is agreed the Commission shall not be liable for separation pay to the separated employee. Where an employee engaged on Contract work at the Hicksville Plant "bumps" a less senior employee assigned to commercial work, the Commission shall reimburse the Company, if required, for separation payments to the employee thus separated. In all instances where the Commission reimburses for separation pay to employees not engaged on its work at time of separation, payments must be approved by the Commission.

- b. Non-Exempt Salaried Employees - Two (2) weeks' pay and as much notice as possible. An additional one week's pay may be granted to employees having five (5) or more years of continuous service.

Separation pay to eligible employees whose total Company service has been divided between the Contractor's commercial activities and work under this Contract shall be prorated according to length of service on Contract work and the Company's commercial activities.

- c. Exempt Salaried Employees - Four (4) weeks pay or until the employee secures new employment for employees with up to five (5) years continuous service. An additional one (1) week's pay for each year, or portion thereof, of continuous service in excess of 5 years service or until the employee secures

new employment except that in no instance shall the employee receive more than 15 weeks separation pay. Separation pay to eligible employees whose total Company service has been divided between the Contractor's commercial activities and work under this Contract shall be prorated according to length of service on Contract work and the Company's commercial activities.

2. Severance Pay - Hicksville Site Closing

Reimbursement will be made to the Company for severance payments only in the event that the Hicksville site is closed because of termination or expiration of this Contract. Severance payments made to employees whose total service has been divided between the Contractor's commercial work and work under this Contract shall be prorated according to the length of service on Contract work and commercial work. Employees whose employment is terminated because of the closing of the Hicksville site may receive severance pay in accordance with the sections of Sylvania Electric Products, Inc., Policy and Standard Practice entitled "Reassignment or Separation of Employees when a Plant or other Facility is Being Permanently Closed" and "Separation Policy-Plan 'A' Employees" further identified as No. 313. (Supplements 2 and 4) issued October 1, 1963.

IV. EMPLOYEE BENEFITS

A. Educational Benefits

When an employee is assigned to an educational course as part of his work under this Contract, the Contractor may pay the cost of the course, including books and required travel expenses.

Employees who elect to take educational courses may be reimbursed by the Contractor as outlined below.

1. The employee must obtain approval of the Plant Manager prior to enrolling in the course.
2. Upon completion of the course and before reimbursement for any part of the course cost is made, the employee shall provide acceptable evidence of successful completion and appropriate properly receipted bills.
3. If the course is directly related to the performance of Contract work, 100% tuition will be refunded upon satisfactory completion of the course.

4. If the course is not directly related to the employee's present work but is related to the employee's development for higher level work in which there is a reasonable probability that he may be engaged under the Contract, 50% of the tuition may be refunded upon satisfactory completion of the course.
5. If the course is not directly related to Contract work but part of the requirement for a degree in a field directly related to the Contract work in which the employee is engaged, 50% of the tuition may be refunded upon satisfactory completion of the course.

In addition to the benefits outlined above, up to six hours time off per week with pay may be granted to employees who take approved graduate-level courses related to this Contract.

B. Group Insurance

The Contractor maintains group insurance program for all eligible and retired employees including: 1) life insurance, 2) accidental death and dismemberment insurance, 3) insurance for company travel, 4) hospital-surgical-medical insurance, 5) major medical insurance, and 6) non-occupational disability insurance, the details of which are on file and approved by the Commission. The Contractor's contribution to the cost of the program is reimbursable on a pro rata share basis as approved by the Commission. A proper share of dividends, premium refunds, and other credits accrued to the approved group insurance program will be credited to the cost of Contract work. The following group insurance programs are provided by the Contractor.

1. Life Insurance is provided for all regular employees at no cost to the employee after one month of Company service. The amount of insurance is determined by the employee's base rate of pay. The face value of the life insurance per eligible employee will be a minimum of \$3,000 and a maximum of \$225,000. Insurance coverage may be extended up to one year during a period an employee is totally disabled.
2. Accidental Death and Dismemberment Insurance is provided for all regular employees at no cost to the employee after one month of Company service. The amount of insurance is determined by the employee's base rate of pay, with a minimum of \$3,000 and a maximum of \$20,000 for any one accident. Insurance coverage may be extended up to one year during the period an employee is totally disabled.
3. Insurance for Company Travel is provided at no cost to the employee to cover death while an employee is traveling on, and as a result

of, Company business. The amount of death insurance will be two times the employee's base annual salary, subject to a minimum of \$25,000 and a maximum of \$150,000.

4. Hospital-Surgical-Medical Insurance is provided for regular employees at no cost to the employee after one month of Company service. The insurance covers the employee and his dependents. Insurance coverage may be extended up to one year during a period an employee is totally disabled.
5. Major Medical Insurance is provided for all regular employees at no cost to the employee after one month of Company service. Major Medical Insurance is in addition to the basic Hospital-Surgical-Medical Insurance. Insurance coverage may be extended up to one year during a period an employee is totally disabled.
6. Non-Occupational Disability Insurance is provided to all employees at no cost to the employee immediately upon employment if the employee was a covered employee working for a covered employer within the preceding six months or after 28 calendar days of employment. Benefits under this plan begin eight (8) days after a non-occupational illness or injury. Payments under this policy are made in lieu of salary or wages in an amount equal to one-half of the normal weekly pay, but not to exceed \$65 per week. Benefits under this policy for any one accident or illness may not be paid for more than 26 weeks.

C. Pension Plan

A non-contributory Pension Plan is provided all employees of the Contractor, the details of which are filed with and approved by the Commission.

D. Savings and Security Plan

Regular employees with one year of continuous service may participate in a voluntary Savings and Security Plan as filed and approved by the Commission. Under the Plan participating employees contribute 3% of their earnings by payroll deductions and the Contractor contributes 6% of its net profits before Federal tax based on income for each year but not to exceed an amount equal to the total amount contributed by the members and not withdrawn during the year.

V. TRAVEL, TRANSPORTATION, SUBSISTENCE, AND MOVING EXPENSES

A. Travel, Transportation and Subsistence

Travel incurred by employees, consultants and prospective employees

in connection with the performance of contract work may be reimbursed as follows:

1. The actual cost of transportation by common carrier, or \$.08 per mile plus highway, bridge, ferry and tunnel tolls when travel by vehicle is authorized.
2. The reasonable actual cost of lodging in accordance with prevailing locality rates plus an allowance not in excess of \$7.50 per day for subsistence.
3. The actual cost of necessary telephone calls, telegrams, and incidental transportation and personal expenses.

B. Moving and Relocation Expenses

Key scientific, technical and professional employees moving and relocation expenses to plants operated in connection with the performance of contract work may be reimbursed as follows:

1. Transportation expenses for an employee and dependents as in A. 1. above.
2. The reasonable actual cost of lodging plus a subsistence allowance not in excess of \$7.50 per employee, \$6.00 for each dependent over 12 years of age and \$4.00 for each dependent 12 years of age and under while enroute from place of permanent residence to transferred location.
3. A living expense allowance not to exceed \$9.00 per day for thirty (30) days to cover additional living expenses of an employee where family remains at principal place of permanent residence at time of transfer. In addition, the incurred cost of two (2) round trips from place of work to principal place of permanent residence during this period.
4. Reasonable travel expenses incurred by an employee's wife in making visits not in excess of two round trips to new location prior to transfer of residence with such expenses reimbursed in accordance with A.1., 2., and 3. above; or, if traveling with husband, in accordance with B.1., and 2. above.
5. Reasonable brokerage fees not to exceed 5% of sale price plus legal and other necessary closing fees in connection with the sale of principal place of permanent residence at the old location; or, a reasonable cancellation fee not to exceed the equivalent of three (3) months' rental in connection with the breaking of a lease on a

rented house or apartment.

6. Legal fees and other unavoidable expenses not to exceed 3% of the purchase price in connection with the purchase of a residence at the new location.
7. The cost of real estate taxes, fire insurance, and interest on the mortgage on the old house not in excess of the equivalent of one month's payment when it is necessary for an employee to take title to a house in the new location without completing the sale and transfer of title to his house at the old location.
8. The reasonable cost of transportation of household goods and effects including packing, crating, insurance, unpacking, disconnecting and connecting equipment and for temporary storage of house hold goods and effects not in excess of thirty (30) days.
9. Incidental relocation expenses not to exceed 50% of one (1) month's base salary for an employee who owns and transfers household goods to the new location.
10. When at the Contractor's request an Exempt Plan A employee is transferred from another Sylvania location to the Hicksville site, reimbursement consistent with Sylvania commercial practice as defined in its Policy and Standard Practice Manual dated February 15, 1963, may be made for a loss sustained by the employee in the sale of his residence. It is understood that this policy shall be applied uniformly to all company Plan A employees and that reimbursement for such a loss is limited to its occurrence upon the transfer of an employee to the Hicksville site to perform work on Contract AT(30-1)-1293 and not applicable to its occurrence upon the transfer of an employee performing work on Contract AT(30-1)-1293 from the Hicksville site to another location. Reimbursement of any loss in excess of \$500 shall be subject to the Commission's prior approval.

C. New Hires - Key Scientific, Technical and Professional Employees

Travel and moving expenses incurred by new hires in connection with Contract work may be reimbursed as follows:

1. Transportation and moving expenses for an employee and dependents as in V.A.1., B.2., and B.8.
2. Reasonable cost of room and board for two weeks and reasonable travel expenses incurred by an employee or his wife in making visits not to exceed two round trips between new location and former residence if the new employee relocates before moving his

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family.

VI. MISCELLANEOUS EXPENSES AND ALLOWANCES

A. Pre-Employment Physical Examination

Reimbursements may be made for the expense of pre-employment physical examinations performed by a non-company physician when such examinations are necessary for the placement of an individual on Contract work. Such reimbursements will not exceed \$35 for any one individual.

B. In-Plant Training Courses

The reasonable costs of in-plant training courses deemed essential and of benefit to the performance of Contract work are approved as allowable Contract costs.

C. Outside Training and Meetings

When it is in the interest of the Contract for an employee to participate in outside training at the request of the Contractor or attend scientific, technical, or professional meetings, the cost of such training or attendance is an allowable cost under the Contract. Participation in outside training or attendance at meetings for a period of five (5) working days or more and all foreign travel incurred in connection therewith, will require the prior approval of the Commission.

D. Licenses, Professional Society Memberships, and Magazine Subscriptions

1. When professional licenses are considered essential to the performance of Contract work or where an employee is the official representative of the Contractor or attends meetings of engineering, management or professional societies as part of his work, reimbursement may be made for the actual costs of such licenses, dues or memberships, and magazine subscriptions.
2. Where employee subscriptions to technical magazines, professional licenses, or memberships in scientific, engineering or professional societies are considered of benefit to the performance of Contract work, reimbursements may be made up to one-half the costs of such subscriptions, licenses or memberships.

E. Publication Awards

Employees may receive token awards not to exceed \$50 for publications of technical papers in technical journals which are of interest to the Contract and for which no compensation has been received from the

publisher.

F. Employee Social and Recreational Activities

Costs incurred as Contractor contributions to employee social and recreational activities may be made in an amount not exceeding the equivalent of 9 cents per week per employee.

G. Supper Money

Reasonable supper money allowances may be paid to exempt employees when they are not receiving overtime pay and work $2\frac{1}{2}$ hours or more past the end of their standard shift. Non-exempt salaried and hourly employees, who receive overtime wages, will not receive supper money.

H. Employment Agency Fees

When employment agency services are required to secure properly qualified personnel for the performance of Contract work, agency fees for such services may be reimbursed in an amount not exceeding 10% of an employee's base annual wage or salary.

I. Printed Material

A pro rata share of the cost of printed material which is distributed to employees for training, information and indoctrination under the Contract is reimbursable.

J. Clothing Loss

Damage to or loss of employee clothing and personal property as the result of the performance of Contract work and not attributable to the employee's carelessness or negligence will be reimbursed. The amount of reimbursement will be based on replacement cost minus a fair depreciation estimate.

K. Personal Protective Equipment

The Contractor will be reimbursed for the cost of providing employees with required personal protective equipment or clothing in accordance with the Contractor's established policies and practices.

L. Patent Awards

The Contractor may be cost reimbursed in amounts not to exceed \$100 per employee under the Contractor's Patent Award Program for patents granted and assigned to the Commission. Where the invention or dis-

covery is of particular importance or value to the Commission, additional awards may be granted with prior written Commission approval.

M. Suggestion Awards

The Contractor may be reimbursed on a pro rata share basis for the reasonable cost of a Suggestion Awards Program. Hourly and non-exempt salaried employees on jobs which require working out improvements, developments, or new ideas shall be eligible for awards for only those suggestions which apply outside the scope of their own responsibility, duties, or assignments. Exempt employees shall not be eligible for suggestion awards. The minimum award is \$7.50. The maximum award is \$25,000. Reimbursement of any award in excess of \$250 for any one employee or \$500 for any employee group shall be subject to the approval of the Commission. The Contractor will provide the Commission with such data as may from time to time be required for appraisal and substantiation of costs incurred under the program.

O. Family Day

The Contractor may be reimbursed on a pro rata share basis for the reasonable cost of holding an annual "Family Day - Open House" program. Reimbursement shall be subject to prior approval of the Commission.

P. Cooperative Student Work Program

When it is in the interest of the contract to afford engineering or scientific students employment under a cooperative arrangement with an accredited college or university that has a bona fide and established cooperative student work program in accredited, engineering and/or scientific disciplines, reimbursement may be made for expenses as follows:

1. Travel and Related Expenses for the Student's Initial Interview

- a. The actual cost of transportation between the school and the contractor plant site by common carrier, or \$.08 per mile plus highway, bridge, ferry and tunnel tolls when travel by private passenger vehicle is used.
- b. The reasonable actual cost of lodging plus an allowance not in excess of \$7.50 per day for subsistence.
- c. The actual cost of necessary telephone calls, telegrams, and incidental transportation expenses.

2. Travel and Relocation Expenses

- a. Travel as described in A.1., above between the school and the contractor's plant site for each 6 months term of work where the student ordinarily lives (except when in school) more than 50 miles from the contractor's plant site.
- b. The reasonable actual cost of lodging plus a subsistence allowance not in excess of \$7.50 per day while in travel status.
- c. In order to allow the student time to find housing, the reasonable actual cost of lodging not to exceed \$7.50 per day for a period up to one week (7 days) on the initial work term and up to 3 days on subsequent work terms and approved by the contractor on an individual basis.

3. Salaries

Students working under a cooperative program and performing work on the contract will be paid according to the following scale:

	<u>Work Term*</u>	<u>Weekly Salary</u>
Co-op Student 1	(1	\$78.00
	(2	82.00
Co-op Student 2	(3	90.00
	(4	94.00
Co-op Student 3	(5	102.00
	(6	106.00
Co-op Student 4	(7	114.00
	(8	114.00

* Each term represents 3 months

4. Continuity of Service

The student's return to school work at the end of each work term will, for the purpose of calculating company benefits, be regarded as a resignation and service will not accumulate from one term to another unless and until the student ceases to work under the cooperative program and becomes a full time regular employee. At such time as the student becomes a full time regular employee all company benefits will be applicable to the student and credit will

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Sylcor Division
Appendix "A"

be given for the full time he worked under the cooperative program.

5. Other Benefits

Cooperative students will not be eligible for all company benefits but may be treated the same as a regular employee under Appendix "A" for the following:

Section II	A	Holidays
Section III	D - 1	Court Duty
	D - 3	Death in Immediate Family
	D - 5	Required Selective Service Examinations
Section IV	B	Group Insurance

Revised October 1, 1963

Contract No. AT(7-1)-1293 with
 Sylvania Electric Products Inc.,
 Sylcor Division
 Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Monthly Salary Range</u>
Manufacturing Manager	13 J	\$1150 - \$1905
Engineering Manager "B"	12 J	1035 - 1710
Engineering Specialist Plant Manager "C" Section Head	11 J	940 - 1555
Manufacturing Superintendent Supervisor of Product Engineering Advanced New Product Development Engineer-Sylcor	10 J	855 - 1410
Advanced Research (or Development) Engineer Engineer-in-Charge Supervisor of Quality Control "A" Senior Sales Engineer	9 J	765 - 1260
Equipment Design Specialist General Foreman Project Engineer Research (or Development) Engineer Supervisor of Cost Control "A"	8 J	690 - 1145
Safety Engineer, Sylcor Research Metallographer Senior Engineer "A" Supervisor, Production Control "B" Supervisor, Quality Control "B" Supervisor of Personnel "B"	7 J	635 - 1045

Revised December 30, 1963

Contract No. AT(3)-1293 with
Sylvania Electric Products Inc.,
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Monthly Salary Range</u>
Contract Administrator Equipment Designer, Sr. Purchasing Agent "A" Senior Engineer "B" Supervisor of Security and Administrative Service Supervisor of Maintenance "B" Toolroom Foreman Foreman Class I Tool Coordinator	6 J	\$ 590 - \$ 965
Buyer Cost Analyst & Statistician Supervisor of An Accounting Department Section	5 K	550 - 890
Engineer Foreman, Nuclear Products Industrial Engineer Accountant, Senior Foreman II Personnel Assistant Systems and Procedures Analyst, Jr. Equipment Designer	4 K	510 - 815
Cost Accountant	3 K	470 - 745

Revised December 30, 1963

Contract No. A1 (0-1)-1293 with
Sylvania Electric Products, Inc.,
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Weekly Salary Range</u>
Master Craftsman Technical Associate	64	\$126 - \$190
Designer-Draftsman	63	118 - 176
Material Requirements Analyst Production or Maintenance Supervisor I Technician, Senior Production Scheduling Clerk Job Estimating Clerk Accountability Supervisor	62	109 - 166
Draftsman Accountant, Junior Production or Maintenance Supervisor II Safety Inspector Plant Protection, Supervisor	60	97 - 148
Employment Interviewer & Counselor Buyer, Junior Nurse, Senior Technician Stock Clerk Production Control Clerk	59	91 - 138
Payroll Accountant Purchasing Clerk Secretary, Senior	58	86 - 130

Revised October 1, 1963

Contract No. AT(-1)-1293 with
Sylvania Electric Products Inc.,
Sylcor Division
Appendix "A"

SCHEDULE I

SALARIED EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Weekly Salary Range</u>
Draftsman, Junior Nurse Production Section Leader	57	\$82 - \$123
Production Control Clerk, Junior Technician, Junior Secretary Accounting Clerk, Senior Stock Clerk, Junior Statistical Clerk, Senior	56	77 - 114
Clerk, Senior	55	74 - 106
Accounting Clerk, Junior Technical or Statistical Clerk Telephone Operator II	54	71 - 98
Clerk-Typist	52	71 - 86

General Wage Increase - Effective September 2, 1963

Revised October 1, 1963

Contract No. AT(-1)-1293 with
Sylvania Electric Products Inc.,
Sylcor Division
Appendix "A"

SCHEDULE II

HOURLY EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Hourly Salary Range</u>
Tool, Die & Model Maker "A"	IG 12	\$3.05 - \$3.66
Machinist "A" Electrician Specialist Inspector "A" Sheet Metal Specialist	IG 11	2.88 - 3.49
Mechanic "A" Welder "A" Sheet Metal Worker "A" Electrician "A" Welder I Machinist I	IG 10	2.72 - 3.28
Machinist "B" Carpenter Inspector "B"	IG 9	2.56 - 3.08
Mechanic "B" Process & Equipment Checker Assembly & Furnace Brazing Rolling Mill Operator Melter Guard Sergeant Fluoroscope Operator & X-Ray Inspector Radiographist	IG 8	2.41 - 2.92

General Wage Increase - Effective September 2, 1963

Revised October 1, 1963

Contract No. AT' -1)-1293 with
 Sylvania Electric Products Inc.,
 Sylcor Division
 Appendix "A"

SCHEDULE II

HOURLY EMPLOYEES

Non-Exempt

<u>Job Classification</u>	<u>Grade</u>	<u>Hourly Salary Range</u>
Armed Guard	IG 7	\$2.24 - \$2.73
Armed Courier		
Storekeeper		
Machinist "C"		
Inspector "C"		
Chemical Room Operator		
Machining Operator-CPP		
Sodium Loading Dry Box Operator		
Briquetting Operator		
Heat Treatment Operator		
Hot Pressing Operator-VB		
Welding Operator-VB		
Machining Operator-VB		
Fluoroscope Operator		
Hot Press Operator		
Finishing Operator		
Maintain Chemical Solutions		
Materials Stock Clerk	IG 6	2.14 - 2.56
Mechanic "C"		
Canning-Hot Press Operator		
Canning-Assembler		
Die Processing Operator		
Machining Operator-AEC		
Plating Machine Operator		
Fabrication Operator		
Rack Maintenance Man		
Groundskeeper	IG 5	2.02 - 2.41
Trainee, Production		
Maintenance Apprentice	IG 4	1.91 - 2.26
Cafeteria-Dishwasher, Porter	IG 3	1.81 - 2.13
Janitor-Porter		

General Wage Increase - Effective September 2, 1963

Revised October 1, 1963

Roland A. Anderson, Assistant General
Counsel for Patents, Germantown

October 2, 1963

Randall G. Erdley, Chief
Savannah River Patent Group

CONTRACT AT(30-1)-1293 WITH SYLVANIA ELECTRIC PRODUCTS, INC.

CP:AFW:cm

The subject contract has been extended from October 1, 196~~2~~⁴ to
September 30, 196~~4~~⁵ by a TWX dated September 27, 196~~3~~⁴.

Sylvania Electric Products, Inc. has submitted a voucher request-
ing payment of a fee retainer for the fiscal year ending June 30,
196~~3~~⁴ in the subject contract.

It would be appreciated if you would furnish an interim patent
clearance certificate for the period ending June 30, 196~~3~~⁴.

cc: H. S. Potter, NYOO

P.S. to Potter: Please advise if we may be of any assistance
in this matter.

OFFICE ▶	Patent Br.					
SURNAME ▶	R.G. Erdley					
DATE ▶	10-2-63					

~~SECRET~~

UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

TO : J. S. Hopkins, Director
Administrative Division
James R. Jakes
FROM : *for* A. Y. Morgan, Director
Budget & Finance Division

DATE: NOV 21 1963

SUBJECT: REVIEW OF SYLCOR PROPOSAL P-64-2

Document No. SR-FB-993

FB:MER:ac

This document consists of 5 pages.

No. 1 of 8 copies. Series A

We have reviewed Sylcor's Revised Proposal (P-64-2) for the period 10/1/63 to 9/30/64 and have the following comments, cost comparisons and contract finance information:

Comments

The revised proposal is based on a level of production which is below the amount of production which is required to achieve optimum unit costs. However, we believe that the estimates included herein represent as reasonable an approximation as can be made in the period of declining production. An amount has been included for Du Pont tooling — an amount which may not be required; but we recommend including the amount in the contract in the event tooling orders are placed.

After V-E production is completed in March of FY 1964, the key engineers who have devoted their time to Mark V-E production will then direct their effort to development problems associated with lowering the unit cost and improving the stability of natural uranium elements.

The amounts included herein for operating costs are below the amounts included in the FY 1964 Budget for Sylcor.

We recommend the proposal be accepted as submitted with the reservation that the fee will be adjusted in the event the tooling does not materialize.

Cost Estimates

	Actual 10/1/62 9/30/63	Estimates P-64-1	Estimates P-64-2
	(In Thousands of Dollars)		
Direct Labor	\$1,022	\$ 773	\$ 732
Direct Materials	919	720	611
Overhead	1,137	902	873
G & A	201	182	176
Subtotal	\$3,279	\$2,577	\$2,392

DEPARTMENT OF ENERGY - SAVANNAH RIVER RESEARCH ESTABLISHMENT - ATOM REVIEW

Determination (Circle Number)
 1. Classification Unchanged
 2. Classification Changed to:
 3. Classification Canceled
 4. Other: CG-NR/P-2 9-00

1st Review Date: 4/13/63
 Authority: ADCC/DAB
 Name: OB Black
 2nd Review Date: 4/13/63
 Authority: ADD
 Name: Morgan

GROUP 1
EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

UNCLASSIFIED

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J. S. Hopkins

- 2 -

NOV 21 1963

	Actual 10/1/62 9/30/63	Estimates P-64-1	Estimates P-64-2
	(In Thousands of Dollars)		
Fee	\$ 198	\$ 155	\$ 144
Purchased Equipment	174	121	114
Total Costs	<u>\$3,651</u>	<u>\$2,853</u>	<u>\$2,650</u>

Ratio Overhead to			
Direct Labor	111%	117%	119%

The increases in ratios were discussed with Sylcor. They contended that certain overhead items such as rent and division prorates cannot be reduced in direct proportion to direct labor. Therefore, although overhead in total decreases, the proportion to direct labor increases. There is no evidence to refute their contention. So, we accept as reasonable, under the conditions, their overhead estimates.

The G & A estimate is also considered to be reasonable under existing conditions.

Cost by Program

Mark VII-A	\$ 440	\$ -	\$ -
Mark V-B	2,145	1,531	1,278
Mark V-E	262	828	786
Thorium	121	12	12
Development	303	182	230
Tooling	29	-	49
Fabricated Equipment	177	179	181
Purchased Equipment	174	121	114
Total	<u>\$3,651</u>	<u>\$2,853</u>	<u>\$2,650</u>

Production Lbs.

Mark VII-A	440,000	-	-
Mark V-B	1,181,000	1,488,000	1,030,000
Mark V-E	35,000	292,000	292,000

Unit Cost/Lb.

Mark VII-A	\$ 1.00	\$ -	\$ -
Mark V-B	1.82	1.03	1.24
Mark V-E	7.60	2.83	2.70

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USDOE 017838

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J. S. Hopkins

- 3 -

NOV 21 1964

We were concerned with the high unit cost of Mark V-E and discussed the matter with Sylcor. Sylcor contended that the quantities to be canned were pilot quantities, and since the dimensions of the V-E are such that they cannot be handled in the current press, the canning is to be done in the research facilities essentially "by hand" and that these are the best estimates they can make. Based on pilot quantities of new elements canned in past periods, the estimates are, therefore, not considered unreasonable.

The Mark V-B estimate increases from the initial FY 1964 estimate because of decreases in production.

The estimate for development is about \$30,000 more than included in the FY 1964 Budget but the increase can be absorbed by under-runs by other contractors in the O2 development program.

Cost and Fee by Program

	P-64-2		
	<u>Cost</u>	<u>Fee</u>	<u>Total</u>
Mark V-B	\$1,196,280	\$ 82,650 ^{a/}	\$1,278,930
Mark V-E	741,930	44,515	786,445
Thorium	11,200	670	11,870
Tooling *	46,110	2,766	48,876
Development	215,820	12,841 ^{b/}	228,661
Fabricated Equipment	181,240	a/	181,240
Purchased Equipment	114,200	-	114,200
Total	<u>\$2,506,780</u>	<u>\$143,442</u>	<u>\$2,650,222</u>

a/ Includes fee on Fabricated Equipment of \$10,874.

b/ Fee adjusted by \$108 which represented estimated cost of \$1,800 work on Zr cladding for which the fee was paid in Modification 34.

Fee Base

Direct Labor	\$ 732,060
Direct Materials	611,480
Overhead	873,150
G & A	175,890
Subtotal	\$2,392,580
Zr Cladding (Mod. 34)	(1,800)
Fee Base	<u>\$2,390,780</u>
Fee @ 6%	\$ 143,447 Rounded to \$143,442

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USDOE 017839

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J. S. Hopkins

- 4 -

NOV 21 1963

Conclusion

We recommend that the proposal be accepted as submitted with the provision that the fee will be adjusted if the tooling does not materialize.

Contract Finance Information

Contract Cover Sheet (Modification 35)

Recapitulation of Estimated Costs and Commission Obligation

	<u>Mod. 34</u>	<u>Increase (Decrease)</u>	<u>Mod. 35</u>
<u>Summary of Estimated Costs and Fixed Fee</u>			
<u>Operating Cost</u> ^{1/}	\$26,523,671	\$2,179,980	\$28,703,651
<u>Plant and Equipment (Beginning July 1, 1963)</u>	123,932	249,100 ^{2/}	373,032 ^{2/}
<u>Fixed Fee (Operations)</u>	<u>1,488,615</u>	<u>143,442</u>	<u>1,632,057</u>
<u>Total Estimated Costs and Fixed Fee</u>	<u>\$28,136,218</u>	<u>\$2,572,522</u>	<u>\$30,708,740</u>
<u>Commission Obligation (as of November 1, 1963)</u>			<u>\$29,026,218</u>

^{1/} Includes Plant and Equipment prior to 7/1/63.

^{2/} Includes \$35,000 for first quarter FY 1965 authorizations not to be obligated in FY 1964.

Contract Articles (Financial)

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - Estimates of Costs, Obligation of Funds, and Fixed Fee, is revised to read as follows:

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USDOE 017840

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J. S. Hopkins

- 5 -

NOV 21 1963

29,076,683
1,632,057
30,708,740

(1) Estimate of Cost and Fixed Fee - The presently estimated cost of the work under this Contract is \$29,076,683, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in Paragraph 2., Article V of the Contract, is \$1,632,057. The estimated cost of the work, as described in Paragraph 1. of the Article entitled Scope of Work, for the period October 1, 1963, to September 30, 1964, is \$2,506,780, exclusive of the Contractor's fixed fee of \$143,442.

2. Change first sentence in Paragraph 2., Obligation of Funds, of Article IV - Estimates of Cost, Obligation of Funds and Fixed Fee to read:

The amount presently obligated by the Government with respect to this Contract is \$29,026,218.

3. The following new subparagraph (e) is added to Paragraph 2., Fixed Fee of Article V - Allowable Cost and Fixed Fee:

(e) The fixed fee applicable to the work performed during the period October 1, 1963 to September 30, 1964 is \$143,442.

4. The following new subparagraph (e) is added to Paragraph 2., Payment of Fixed Fee, of Article VI - Payments:

(e) For the period October 1, 1963 through September 30, 1964, ninety per cent (90%) of the fixed fee of \$143,442 shall become due and payable in monthly installments of \$10,758.

cc: J. J. Wise, Asst. Manager for Admin.
N. J. Donahue, T&P Division
E. W. Stark, Accounting Branch
R. A. Messick, Contract Fin. Branch

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USDOE 017841

D. S. Zachry, Chief
Oak Ridge Patent Group

December 12, 1963

Randall G. Erdley, Chief
Savannah River Patent Group

CONTRACT NO. AT-(30-1)-1293 -- SYLVANIA ELECTRIC PRODUCTS, INC.

CP:AF04mls

In response to your memo of December 4, 1963, enclosed is a copy of the latest interim patent clearance certificate for the subject contract which covers the last fiscal year period ending June 30, 1963.

SROO Contracts Branch has informed us that this contract has been extended to September 30, 1964. Since in the past, the patent investigation has been conducted by the New York Patent Group and interim certificates have been issued regularly on a fiscal year basis, we do not expect another interim clearance until after June 30, 1964.

If we may be of further assistance, please let us know.

Enclosure:

Copy: Interim Patent Clearance Certification

OFFICE ▶	Patent Br.					
SURNAME ▶	A. H. P.					
DATE ▶	12/12/63					

~~SECRET~~

UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

TO : J. S. Hopkins, Director
Administrative Division

FROM : *A. Y. Morgan*
A. Y. Morgan, Director
Budget & Finance Division

DATE: JAN 7 1964

SUBJECT: SYLCOR PROPOSAL P-64-2

Document No. SR-EB-1004

FB:MER:ac

This document consists of 3 pages.

No. 1 of 8 copies, Series A

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW

Determination (Circle Number)
 1. Classification Unchanged
 2. Classification changed to:
 3. Classification Canceled
 4. Other: CG-NM-1 9-001

1st Review Date 4/3/63
 Authority: ABC ADD
 Name: G. B. Wallace

2nd Review Date 9/16/63
 Authority: ADD
 Name: Wesley L. Henderson

Please refer to my memorandum of November 21, 1963. As a result of revisions in the Du Pont tooling estimates as discussed by Wise, Coker, Thorne, and Donahue, the following are the revised estimates to be used in Modification 35 to the Sylcor Contract.

	P-64-2 Original	Revised	Change
Direct Labor	\$ 732,060	\$ 722,999	\$ (9,061)
Direct Materials	611,480	598,966	(12,514)
Overhead	873,150	861,724	(11,426)
G & A	175,890	172,781	(3,109)
Adjustments	(1,800)	(1,800)	-0-
Subtotal (Fee Base)	\$2,390,780	\$2,354,670	\$(36,110)
Fee @ 6% (Rounded)	143,442	141,276	(2,166)
Purchased Equipment	114,200	114,200	-0-
Add Back Adj.	1,800	1,800	-0-
Total	<u>\$2,650,222</u>	<u>\$2,611,946</u>	<u>\$(38,276)</u>

The net effect of the above change is a reduction in the tooling estimate of \$38,276 including a fee reduction of \$2,166. The revised tooling estimate is \$10,600 including a fee of \$600.

The cost and fee by program should be revised as follows:

Item	Labor	Materials	Overhead	G & A	Fee	Total
Mark V-B	\$317,190	\$389,200	\$390,440	\$ 99,450	\$ 82,650 ^{a/}	\$1,278,930
Mark V-E	254,280	157,600	277,800	52,250	44,515	786,445
Thorium	4,700	1,000	4,730	770	670	11,870
Tooling	2,509	3,466	3,164	861	600	10,600
Development	81,230	8,700	106,440	19,450	12,841 ^{b/}	228,661
Fab. Equip.	63,090	39,000	79,150	-0-	^{a/}	181,240
Pur. Equip.	-0-	-0-	-0-	-0-	-0-	114,200
Total	<u>\$722,999</u>	<u>\$598,966</u>	<u>\$861,724</u>	<u>\$172,781</u>	<u>\$141,276</u>	<u>\$2,611,946</u>

^{a/} Includes fee of \$10,874 for Fabricated Equipment.

GROUP 1
EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

UNCLASSIFIED

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USDOE 017833

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J. S. Hopkins

- 2 -

JAN 7 1964

b/ Fee adjusted by \$108, which represents estimated cost of \$1,800 work on zirconium cladding for which fee was paid in Modification 34.

The contract finance information should be revised to read as follows:

Contract Cover Sheet (Modification 35)

Recapitulation of Estimated Costs and Commission Obligations

	<u>Mod. 34</u>	<u>Increase (Decrease)</u>	<u>Mod. 35</u>
Summary of Estimated Costs and Fixed Fee			
<u>Operating Costs^{a/}</u>	\$26,523,671	\$2,143,870	\$28,667,541
<u>Plant and Equipment</u> Beginning July 1, 1963	123,932	249,100 ^{b/}	373,032 ^{b/}
<u>Fixed Fee</u> (Operations)	<u>1,488,615</u>	<u>141,276</u>	<u>1,629,891</u>
Total Costs & Fee	\$28,136,218	\$2,534,246	\$30,670,464
Commission Obligation as of January 1, 1964			<u>\$29,326,218</u>

a/ Includes plant and equipment prior to 7/1/63.

b/ Includes \$35,000 for first quarter of FY 1965 authorization not to be obligated in FY 1964.

Contract Articles (Financial)

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - Estimates of Costs, Obligation of Funds, and Fixed Fee, is revised to read as follows:

- (1) Estimate of Cost and Fixed Fee - The presently estimated cost of the work under this Contract is \$29,040,573, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in Paragraph 2., Article V of the Contract, is \$1,629,891. The estimated cost of the work, as described in Paragraph 1. of the Article entitled Scope of Work, for the period October 1, 1963, to September 30, 1964, is \$2,470,670, exclusive of the Contractor's fixed fee of \$141,276.

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USDOE 017834

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J. S. Hopkins

- 3 -

JAN 7 1964

2. Change first sentence in Paragraph 2., Obligation of Funds, of Article IV - Estimates of Cost, Obligation of Funds and Fixed Fee to read:

The amount presently obligated by the Government with respect to this Contract is \$29,326,218.

3. The following new subparagraph (e) is added to Paragraph 2., Fixed Fee of Article V - Allowable Cost and Fixed Fee:

(e) The fixed fee applicable to the work performed during the period October 1, 1963 to September 30, 1964 is \$141,276.

4. The following new subparagraph (e) is added to Paragraph 2., Payment of Fixed Fee, of Article VI - Payments:

(e) For the period October 1, 1963 through September 30, 1964, ninety per cent (90%) of the fixed fee of \$141,276 shall become due and payable in monthly installments of \$10,595.

cc: J. J. Wise, Asst. Mgr. for Admin.
N. J. Donahue, T&P Division
E. W. Stark, Accounting Branch
R. A. Messick, Contract Fin. Branch

~~SECRET~~

USDOE 017835

A

9

This document consists of 8 pages
 No. 1 of 10 copies, Series A.

WSRC DECLASSIFICATION REVIEW	
1st Review Date: <u>4/13/07</u>	Determination (Circle Number)
Authority: <input checked="" type="checkbox"/> ADC <input type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>R. Wolf</u>	2. Classification Changed To:
2nd Review Date: <u>5/23/09</u>	3. Classification Cancelled
Authority: <u>ADD</u>	4. Other: <u>DC RHP 29/150</u>
Name: <u>R. Collins</u>	

SR-A-144

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 REVISED FEBRUARY 1, 1964, UNDER
 MODIFICATION NO. 36

The scope of work to be performed by the Contractor during the period October 1, 1963 through September 30, 1964, as set forth by Modification No. 35 is revised to read as follows:

I. PRODUCTION

A. MARK V-B AND MARK V-E (Inner-Fuel)

The Contractor shall manufacture and furnish to the Commission Mark V-B and Mark V-E slugs at monthly tonnages as follows:

	Mark V-B (Tons) <u>Integral Rib</u>	Mark V-E (Tons) <u>Integral Rib</u>
October 1963	45	48
November 1963	47	20
December 1963	44	26
January 1964	41	28
February 1964	29	33
March 1964	19	33
April 1964	26	31
May 1964	24	27
June 1964	26	31
July 1964	12	11
August 1964	25	25
September 1964	25	25

B. THORIUM

1. Complete the canning and delivery of 11,500 Mark VII-T slugs for irradiation at the Savannah River Plant.
2. Recover and re clad by December 23, 1963, approximately 500 Mark VII-T slugs to standard quality and dimensional specification except that the slug length is to be 6.400 ± 0.070 inch.

II. PROGRAM DEVELOPMENT

A. ELEMENT DEVELOPMENT

1. Long Slugs

Develop a process for canning Mark V-B and Mark V-E IF and OF Elements up to 16" in length by the hot pressure bonding process. Both impact extrusions and tubing will be investigated for cladding.

SROG Response to
 FOIA (SR) -04-028

Copy 9A + 10A destrs
 7/27/68

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED FEBRUARY 1, 1964, UNDER
MODIFICATION NO. 36

This program shall include the establishment of standards, specifications and operating procedures and all necessary research, development, canning and data accumulation. Also, qualification and reactor test slugs will be made.

2. Added Rib

Continue development of the canning of Mark V-B IF elements with added ribs. Investigate the use of other types of aluminum for the rib and changes in the physical structure of the rib.

This program shall include the establishment of standards, specifications and operating procedures and all necessary research, development, canning and data accumulation. Also, qualification and reactor test slugs will be made.

3. Tube Cladding

Study the effects of the use of tubing as cladding for Mark V-B and V-E IF hot pressure bonded slugs.

4. Recovery of Mark V-E

Develop a recovery program to reclaim reject Mark V-E IF slugs and reuse the cores. Set up standards, specifications and operating procedures, whereby reject slugs may be declad and reprocessed through the HPB process.

B. TOOLING AND CLADDING MATERIALS

1. Furnace Tooling

Investigate potential improvements in quality and economy attainable through the replacement of Inconel X by such metals as AF71 or Inconel for furnace tooling, such as mandrels, dies and vacuum pots. Make items of promising materials and test them in the HPB process.

2. Cladding

Investigate potential advantages of low alloys of aluminum as cladding material. Test the most promising materials, such as aluminum with additives of beryllium or germanium, in the HPB process, for further evaluation at SRP.

C. INDUCTION HEATING

1. Heat Pattern Control

Run a series of experiments on HPB induction furnaces to determine actual heat patterns and provide a consistent improved control of the heat applied to the slug.

Investigate the possible use of scanning equipment which will designate the temperature of the die as it leaves the furnace, thereby offering additional improvement of heat pattern control.

2. Cores with Anodic Etch

Investigate possible improvement of HPB strengths by the use of anodic etching of cores before plating and the rapid heat-up cycle attainable with induction furnaces.

D. NONDESTRUCTIVE TESTING

1. Eutectic Prevention

Investigate new methods for the detection of Mark V-B and V-E slugs that have been overheated during the pressing cycle, such as the use of magnetic and hysteresis effects and the chemical test which showed promise with Mark VII-A slugs.

2. Nickel Plate Control

Continue investigation of new types of nickel detection and measurement, such as the magnetic probe, to provide a closer control of the nickel plate on cores.

3. Uranium Metal Quality

Refine and test ultrasonic equipment for potential use in the detection of metal quality rejects before plating.

4. Aluminum Metal Quality

Investigate methods of improving the detection of metal quality rejects in aluminum cladding components before they are used.



APPENDIX "B" TO MODIFICATION NO.
CONTRACT NO. AT(30-1)-1293
REVISED FEBRUARY 1, 1964, UNDER
MODIFICATION NO. 36

III. DU PONT TOOLING

The Contractor shall furnish all materials, services and supplies necessary to perform all work authorized by the Commission in furtherance of the Du Pont Tooling Program.

U. S. ATOMICS ENERGY COMMISSION
Savannah River Operations Office

Modification No. 35
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Amend scope of work and other provisions of the
Contract.

EFFECTIVE DATE : October 1, 1963

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 34</u>	<u>Increase (Decrease)</u>	<u>Modification No. 35</u>
<u>Summary of Estimated Costs and Fixed Fee</u>			
<u>Operating Cost</u> ^{1/}	\$26,523,671	\$2,143,870	\$28,667,541
<u>Plant and Equipment (Beginning July 1, 1963)</u>	123,932	249,100 ^{2/}	373,032 ^{2/}
<u>Fixed Fee (Operations)</u>	<u>1,488,615</u>	<u>141,276</u>	<u>1,629,891</u>
<u>Total Estimated Costs and Fixed Fee</u>	<u>\$28,136,218</u>	<u>\$2,534,246</u>	<u>\$30,670,464</u>
<u>Commission Obligation (as of November 1, 1963)</u>			<u>\$29,326,218</u>

^{1/} Includes Plant and Equipment prior to July 1, 1963.

^{2/} Includes \$35,000 for first quarter FY 1965 authorizations not to be obligated in FY 1964.

~~SECRET~~

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U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 35
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 28th day of February, 1964, effective October 1, 1963, unless otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. In Paragraph 1., Term, of Article III - TERM, EXPIRATION AND TERMINATION, the date "September 30, 1963," is deleted and the date "September 30, 1964," is substituted therefor.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,040,573, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,629,891. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work for the period October 1, 1963, to September 30, 1964, is \$2,470,670, exclusive of the Contractor's fixed fee of \$141,276."
3. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$28,145,046" is deleted and the figure "\$29,326,218" is substituted therefor.

CONFORMED COPY

USDOE 017291

Modification No. 35
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. The following new subparagraph (e) is added to paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE:

"(e) The fixed fee applicable to work performed during the period October 1, 1963, to September 30, 1964, is \$141,276."
5. The following new subparagraph (e) is added to paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS:

"(e) For the period October 1, 1963, through September 30, 1964, ninety percent (90%) of the fixed fee of \$141,276 shall become due and payable in monthly installments of \$10,595."
6. Item (c) Consulting Services of paragraph 4., Items of Allowable Cost, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read as follows:

"(c) Consulting Services (including legal and accounting) and related expenses, as approved by the Contracting Officer, except as made unallowable by Item (y) of paragraph 5."
7. The following new subparagraph (y) is added to paragraph 5., Items of Unallowable Cost, of Article V - ALLOWABLE COST AND FIXED FEE:

"(y) Salaries or other compensation (and expenses related thereto) of any individual employed under this Contract as a consultant or in another comparable employment capacity who is an employee of another organization and concurrently performing work on a full-time basis for that organization under a cost-type contract with the Commission, except to the extent that cash payment therefor is required pursuant to the provisions of this Contract or procedures of the Commission applicable to the borrowing of such an individual from another cost-type contractor."
8. Appendix "A" Modification No. 29, as amended, is further amended as of October 1, 1963, and is attached hereto and made a part hereof.
9. Appendix "B" Modification No. 29, as amended, is further amended as of October 1, 1963, and is attached hereto and made a part hereof.
10. Provision 7., CONTRACTOR'S ORGANIZATION, of Appendix "E" General Provisions is revised to read as follows:

"7. CONTRACTOR'S ORGANIZATION

(a) Organization Chart. As promptly as possible after the execution of this Contract, the Contractor shall furnish to the Contracting Officer a chart showing the names, duties, and organization of

key personnel to be employed in connection with the work, and shall furnish from time to time supplementary information reflecting changes therein.

- (b) Supervising Representative of Contractor. Unless otherwise directed by the Contracting Officer, a competent full-time resident supervising representative of the Contractor, satisfactory to the Contracting Officer, shall be in charge of the work at the site at all times.
- (c) Control of Employees. The Contractor shall be responsible for maintaining satisfactory standards of employee competency, conduct and integrity and shall be responsible for taking such disciplinary action with respect to his employees as may be necessary. The Contractor shall establish such standards and procedures as are necessary to implement effectively the provisions set forth in Atomic Energy Commission Procurement Regulations 9-12.54 and such standards and procedures shall be subject to the approval of the Contracting Officer."

11. The following new General Provision No. 23 is added to Appendix "E" General Provisions of the Contract:

"23. Consultant or Other Comparable Employment Services of Contractor Employees

The Contractor shall require all employees who are employed full-time (an individual who performs work under the cost-type contract on a full-time basis) or part-time (50 percent or more of regular annual compensation received under terms of a contract with the Commission) on the Contract work to disclose to the Contractor all consultant or other comparable employment services which the employees propose to undertake for others. The Contractor shall transmit to the Contracting Officer all information obtained from such disclosures. The Contractor will require any employee who will be employed full-time on the Contract work to agree, as a condition of his participation in such work, that he will not perform consultant or other comparable employment services for another Commission cost-type Contractor under its Contract with the Commission except with the prior approval of the Contractor."

12. All other terms and conditions of the Contract remain unchanged.

Modification No. 35
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: /s/ R. C. Blair

TITLE: Manager, SROO

WITNESSES:

/s/ M. Boll

Hicksville, New York
(Address)

/s/ J. Case

Hicksville, N. Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

BY: /s/ D. B. Metz

TITLE: Manufacturing Manager
Sylcor Division

I, J. M. Toohar, certify that I am Asst. Secretary of Sylvania Electric Products Inc., named above; that D. B. Metz who signed this Agreement on behalf of said corporation, was then Mfg. Mgr., Sylcor Division of said corporation, and that this Agreement was duly signed for and in behalf of said corporation by authority of its governing body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 17th day of February 1964.

/s/ J. M. Toohar

(CORPORATE SEAL)

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Revised October 1, 1963

USDOE 017295

SYLVANIA ELECTRIC PRODUCTS INC.
SYLCOR DIVISION

Contract No. AT(30-1)-1293

APPENDIX "A"
Revised October 1, 1963

PERSONNEL PRACTICES

I. GENERAL PROVISIONS

This Appendix "A" sets forth the current personnel policies, wage and salary practices, employee benefit programs, travel, transportation, subsistence and moving expenses, and miscellaneous expenses and allowances approved as allowable costs under Contract No. AT(30-1)-1293.

The provisions included hereunder reflect regularly established policies and practices of the Contractor, modified only to meet the particular requirements of the Contract and approved by the Commission, and shall be administered in accordance with the Contractor's regular procedures. Reimbursement for items of cost pertaining to the personnel practices and procedures not specifically covered below shall be in accordance with this Contractor's published policies and procedures or consistent with the Contractor's established commercial practices and approved by the Contracting Officer.

This Appendix "A" may be modified from time to time, in whole or in part, without formal Contract modification by mutual written agreement between the Commission and the Contractor.

II. ABSENCES

A. Holidays

The Contractor recognizes nine (9) paid holidays in each calendar year.

Holidays falling on Sunday will be observed the following Monday.
Holidays falling on Saturday will be observed the preceding Friday.

B. Vacations

Employees of the Contractor who have, or will have, on July 1 of the current year the following records of continuous service, may receive paid vacations in accordance with the following schedule:

Revised October 1, 1963

<u>Length of Service</u>	<u>Hourly Employee</u>	<u>Salary Employee</u>
6 months but less than 1 year	20 hours	1 week
1 year but less than 3 years	40 hours	2 weeks
3 years but less than 10 years	80 hours	2 weeks
10 years but less than 25 years	120 hours	3 weeks
25 years or more	160 hours	4 weeks

A week's pay in lieu of one week's vacation may be granted to employees who are eligible for three or four weeks' vacation.

Additional prorated vacation payments may be made to employees eligible for vacation pay based on the following lengths of service:

Hourly Employees

More than 26 weeks but less than 52 weeks	1/26 of 20 hours for each week above 26
More than 2 years 12 weeks but less than 3 years	1 hour for each week above 2 years 12 weeks

Salaried Employees

More than 26 weeks but less than 52 weeks	1/26 of 1 week's pay for each week above 26
---	---

The above vacation allowances are non-cumulative and shall be taken prior to December ³¹ of the current vacation year or forfeited.

Shift premium if applicable, may be included in vacation payments. If the majority of the employees have actually worked on a schedule averaging 48 hours or more per week for the first six months of a calendar year, vacation payments may be based on a 48-hour per week straight time basis.

An extra day's vacation is allowed for each paid holiday falling within the vacation period. Payment for such holiday may be granted to hourly or non-exempt salaried employees.

Employees who leave the Company prior to July 1 of the current year may receive a vacation accrual equal to the number of weeks on the payroll since last July 1, divided by 52, multiplied by the normal vacation pay for an employee with their record of continuous service. Employees who leave the Company after July 1 who have not received the vacation pay to which they are eligible as of July 1, will receive such payments at the time of separation.

Revised October 1, 1963

C. Sick Leave

1. Salaried Employees

Leave with pay may be granted to employees who are absent from work because of personal illness or injury. The amount of such leave granted shall be in accordance with established practices consistently applied throughout the Contractor's organization based upon the following schedule:

<u>Employee's Service</u>	<u>Cumulative Time Off in Any 12-Month Period</u>
Less than 6 months	1 week
6 months to 1 year	2 weeks
1 year to 2 years	4 weeks
2 years to 25 years	4 weeks plus 2 weeks for each full year of continuous service beyond 2 years up to maximum of 50 weeks
More than 25 years	50 weeks

No reimbursement shall be made for unused sick leave to employees upon termination of employment.

2. Hourly Employees

Excused leave with pay may be granted full-time employees who are absent from work for reasons of personal illness, injury, or disability based upon the following provisions:

Full-time employees with one or more years of continuous service who are on the payroll as of January 1 of any calendar year shall be credited with 40 hours of sick leave allowance for that calendar year.

Full-time employees who are not on the payroll as of January 1 but who returned to work from layoff or leave of absence subsequent to January 1 shall be credited for the balance of the calendar year with an amount of sick leave allowance equal to the number of full calendar months remaining in the calendar year times 3-1/3 hours.

Full-time employees who complete their first year of continuous service subsequent to January 1 shall be credited for the balance of the calendar year with an amount of sick leave allowance

Revised October 1, 1963

equal to the number of full calendar months remaining in the calendar year times 3-1/3 hours.

Full-time employees who complete their first year of continuous services on or before the 15th day of the month will be credited with a full 3-1/3 hours of sick leave allowance for that month. Allowances for regular, part-time employees will be reduced proportionately, provided they are employed to work a minimum weekly work schedule of 20 hours or more.

Unused sick leave will be accumulated from year to year up to a maximum of 480 hours. In no case will unused sick leave pay be reimbursed to employees, including separation from the company, for any reason.

Sick leave pay shall be computed at the employee's straight-time hourly rate in effect on the first full or partial day of absence. Shift premium may be added to such straight-time sick leave for employees who, if they worked, would have been assigned to a premium shift.

Employees receiving sick leave pay will not be entitled to Non-Occupational Insurance Benefits for the same period of absence. The number of weeks of Non-Occupational Disability Insurance Benefits to which an employee is entitled shall be reduced by the equivalent number of consecutive 40-hour increments (or fractional portion thereof) of sick leave pay received. Non-Occupational Disability Insurance Benefits will commence at the termination of sick pay if the employee is still unable to return to work due to personal illness or injury and has been disabled for more than seven (7) consecutive calendar days.

Payments received under Workmen's Compensation, cost reimbursed in whole or in part by the Commission, shall be deducted from the sick leave pay received by an employee during any period such payments are received. Sick leave pay will be the difference between the weekly Workmen's Compensation payment and the employee's weekly straight-time wage in effect at the time an occupational disability occurs. When such partial sick leave payments are made, the number of hours to be charged against an employee's sick leave allowance will be determined by dividing the employee's straight-time earnings into the appropriate amount of weekly sick leave pay to be granted.

Revised October 1, 1963

D. Other Absences

1. Court Duty

Employees may be allowed time off without loss of straight-time pay for required jury duty or for required appearance at a court trial.

- a. Hourly and Non-Exempt Salaried Employees will receive the difference between fees received from the court and their normal pay for an eight-hour day.
- b. Exempt Salaried Employees will be paid their normal salary in addition to court fees.

2. Marriage

When an employee elects to be married, he may be granted time off as follows:

- a. Hourly Employees: Up to one week off without pay.
- b. Salaried Employees: Less than 6 months service: Up to one week off without pay. Six months service or more: Up to one week with pay.

3. Death in the Immediate Family

Any employee may be granted up to three working days off with pay because of the death of the employee's spouse, father, mother, son, daughter, brother or sister, mother-in-law or father-in-law.

4. Required Military Duty

Time off for required military reserve duty, not to exceed two weeks during any twelve-month period may be granted to:

Hourly Employees - without pay

Salaried Employees

- (a) Less than six (6) months service - without pay
- (b) With more than (6) months service, the difference, if any between their salary base rate and their military pay for the period.

All employees with six (6) months or more of continuous service

Revised October 1, 1963

who are ordered to active duty for periods of not less than six (6) months duration may receive the equivalent of one (1) month's pay upon release from employment to perform such duty unless he enlists while on an approved occupational deferment.

5. Required Selective Service Examination

Time off with pay may be granted to employees required to visit military examination centers for the purpose of taking preliminary or final type examinations. The amount paid to non-exempt employees shall not exceed eight (8) hours of straight-time pay, including shift premium, if any.

6. Personal Reasons

Time off may be granted to employees absent for personal reasons. Time off for personal reasons may be granted to hourly employees only on a non-pay basis. Non-exempt Plan B employees with six or more months of continuous service may be paid for time off not to exceed five days per year. Exempt Plan A employees with six or more months of continuous service may be paid for time off at the discretion of the Manufacturing Manager or, in his absence, the person acting in his behalf. When such time off exceeds two weeks, additional time off shall come under provisions of II. D.7., below.

7. Leave of Absence

A leave of absence without pay may be granted to employees who are absent for two or more weeks but not to exceed 18 months. Seniority or other benefits shall not be accrued during leaves of absences granted under this section.

III. WAGE AND SALARY ADMINISTRATION

A. Executive Compensation

Executive compensation including bonuses and other remunerations will, for cost-reimbursement purposes, not exceed a pro rata share of the equivalent of \$30,000 per annum for any one executive. The determination of allowable related costs based on compensations paid will also be determined on the basis of the foregoing limitation. In addition, prior Commission approval shall be obtained on the establishment or adjustment of single rates or rate ranges which exceed \$25,000 per year and on any individual salary action which involves a total compensation of \$25,000 or more per year.

Revised October 1, 1963

B. Salary Schedules

Employees whose wages or salaries are cost-reimbursed under the Contract shall be employed in the job classification, grade and salary ranges approved under Schedules I and II attached hereto. Current organization charts, job descriptions and appropriate wage and salary data will be filed with the Commission in support of approved job classifications, grades and wage and salary ranges. Cost of living and general wage and salary adjustments require the prior approval of the Commission.

C. Increases and Promotions

1. Salaried Employees

It is the policy of the Contractor to base the employee's salary on his production and accomplishments in terms of the requirements of his job classification and the rate range for the classification. Reclassification, promotions and merit raises may be made at the discretion of the Contractor in accordance with established practices and procedures. Salaried employees may be considered for merit increases in accordance with the following schedule.

<u>Employee's Place in Rate Range</u>	<u>Interval Between Merit Increases</u> <u>Salaried Employees</u>	
	<u>Non-Exempt</u>	<u>Exempt</u>
Below mid-point of salary range	6 months	12 months
Above mid-point, not immediately promotable	12-18 months	18-24 months
Above mid-point, immediately promotable	6 months	12 months

A non-exempt salaried employee's job performance shall be reviewed semi-annually and he may receive an increase of up to 5% of his base rate at each semi-annual review. Merit increases for exempt salaried employees shall not be granted less than one year from the preceding merit or promotional increase except in unusual cases, and in no case shall they exceed 10% per year. Exceptions may be granted only with the prior approval of the Commission. No merit increase shall be given in excess of the established maximum rate for the position of the exempt or non-exempt salaried employee.

Revised October 1, 1963

2. Hourly Employees

Merit raises within the appropriate labor grade may be given once every three calendar months. In unusual circumstances a merit raise may be given after two calendar months have elapsed after a previous merit increase. New hires may receive a merit increase at the conclusion of a 45-day probationary period. New hires with trainee classification may be promoted to their regular classification and brought to their first step of the appropriate labor grade at the conclusion of a 45-day probationary period.

D. Leadman Premium (Hourly Employees)

An employee officially designated as a "Leadman" may be paid a 10% premium in addition to his hourly rate.

E. Shift Differential

Premium pay of 10% of straight time and overtime earnings will be paid for work on shifts commencing outside the hours of 7:00 a.m. to 9:00 a.m.

F. Compensation for Premium Time - Overtime and Holiday Work

As deemed essential to the performance of Contract work, the Contractor may authorize occasional overtime. Work weeks in excess of 40 hours scheduled for more than four consecutive weeks shall require prior approval of the Commission. Payments for overtime work shall be in accordance with the Federal Wage and Hour Law and the Contractor's established pay practices.

Regular employees may receive their regular straight time pay, not to exceed eight hours (including shift premium if applicable) for unworked official holidays.

If a non-exempt salaried or hourly employee is required to work on an official holiday, he will be compensated for the hours worked at one and one-half times his normal rate of pay including shift differential in addition to the basic eight hours holiday pay.

G. Report-in Pay

An employee who reports to work for his scheduled hours will receive full pay from such hours (not to exceed 8) for that day even though idle or sent home early because of delay or shortage or other reasons beyond his control, except that no such pay shall be made in cases where the Company's failure to provide work is due to power failure, fire, flood, weather conditions, or other conditions beyond the Company's control.

Revised October 1, 1963

Roland A. Anderson, Assistant General
Counsel for Patents, Germantown

March 10, 1964

Randall G. Erdley, Chief
Savannah River Patent Group

SYLVANIA ELECTRIC PRODUCTS, INC. - CONTRACT AT(30-1)-1293

CP:AFW:cm

The subject contract has been extended from September 30, 1963
to September 30, 1964, with an increase in obligation of funds
from \$28,145,046 to \$29,326,218.

OFFICE ▶	Patent Br.					
SURNAME ▶	W. R. P.					
DATE ▶	3-10-64					

Form AEC-318 (Rev. 9-53)

U. S. GOVERNMENT PRINTING OFFICE 16-62701-3

USDOE 017215

UNITED STATES GOVERNMENT

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Memorandum

UNCLASSIFIED

TO : J. S. Hopkins, Director
Administrative Division
James R. James
FROM : *for* A. Y. Morgan, Director
Budget & Finance Division
SUBJECT: SYLCOR PROPOSAL P-64-4
FB:MER:ss

DATE: MAR 13 1964

Document No. SR-~~FA-1025~~

This document consists of 5 pages,

No. 1 of 8 copies, Series A

We have reviewed Sylcor's revised proposal for the period 10/1/63 to 9/30/64 (2472-H P-64-4 Revised) and submit the following cost analysis, conclusion and contract finance information.

Change in scope and estimates

	Current Auth. Revised Est.		Change
	P-64-2	P-64-4	
<u>Production</u>			
Mark V-B tons	515	363	(152)
Mark V-E tons	146	328	182
Total Prod. tons	<u>661</u>	<u>691</u>	<u>30</u>

Includes Act.
Thru Jan. '64

Costs

Mark V-B	\$1,278,930	\$ 986,313	\$(292,617)
Mark V-E	786,445	1,381,269	594,824
Thorium	11,870	18,172	6,302
Development	228,661	120,509	(108,152)
Tooling	10,600	6,145	(4,455)
Fabricated Equipment	181,240	90,800	(90,440)
Purchased Equipment	114,200	87,900	(26,300)
Total Costs	<u>\$2,611,946</u>	<u>\$2,691,108</u>	<u>\$ 79,162</u>

Fee Base Adjusted

Direct Labor	\$ 722,999	\$ 754,200
Direct Materials	598,966	647,180
Overhead	861,724	878,670
G & A	172,781	173,850

Adjustments

(a) Zr. cladding (prior contract period)	(1,800)	(1,800)
(b) Tooling	-0-	(12,000)
(c) Equipment Fabr.	-0-	(8,300)
Total	<u>\$2,354,670</u>	<u>\$2,431,800</u>
Fee @ 6% (rounded)	<u>\$ 141,276</u>	<u>\$ 145,908</u>

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW
 Determination (Circle Number)
 1. Classification Unchanged
 2. Classification changed to:
 3. Classification Canceled
 4. Other: C6-NFP-2 9.00

1st Review Date 4/3/63
 Authority: EDC ADD
 Name: O. B. Slack
 2nd Review Date 1/13/63
 Authority: ADD 9.00
 Name: James R. James

GROUP 1
 EXCLUDED FROM AUTOMATIC
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J. S. Hopkins

-2-

MAR 13 1964

Fee Base Adjustment

In P-64-4 Sylcor's estimated fee base was as follows:

October 1962 - January 1964 (P-64-2)	\$1,042,030
February - September 1964 (P-64-4)	1,411,870
Less Carryover Development Prior to 10/1/63	(1,800)
Net	<u>\$2,452,100</u>
Fee @ 6%	<u>\$ 147,126</u>

From an analysis of the Sylcor proposal (P-64-4) it was determined that the fee base for the period included an amount of \$17,700 for Du Pont tooling whereas their revised estimated tooling cost for the year was \$5,755. Also, fabricated equipment reflected a significant decrease from the prior proposal. R. McFeely and M. E. Robinson discussed these discrepancies with A. Gannon of Sylcor who referred the question to Bill Crowley. Crowley agreed to adjust the fee base by \$12,000 in the tooling program and \$8,300 in the fabricated equipment (estimated underrun in January 1964). With these adjustments in fee base, the revised estimate is as follows:

Fee base as requested	\$2,452,100
Less tooling	(12,000)
Less fabricated equipment	(8,300)
Revised fee base	<u>\$2,431,800</u>
Fee @ 6%	<u>\$ 145,908</u>

Also, since approval of P-64-2, SROO has received revised FY 1965 budget estimates in which no allowance for development was made for Sylcor. Therefore, as a result of discussions between Jack Donahue and Sylcor personnel, the development amounts as included in P-64-4 for the period July-September 1964 were reallocated to Mark V-B and Mark V-E canning.

<u>Unit Costs</u>	<u>P-64-2</u>	<u>P-64-4</u>
Costs V-B	\$1,279,000	\$ 986,000
Production Lbs.	1,030,000	743,000
Unit Cost	\$1.24	\$1.33
Cost V-E	\$ 786,000	\$1,381,000
Production Lbs.	292,000	655,000
Unit Cost	\$2.69	\$2.11

Amounts in P-64-4 include actual production and cost through January 1964.

The unit cost in FY 1964 to date for Mark V-B has been \$1.39/lb. The unit cost in FY 1964 to date for Mark V-E is \$3.11/lb.

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USDOE 017828

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J. S. Hopkins

-3-

MAR 13 1964

The estimated unit cost at the end of this contract period for Mark V-B is estimated at \$1.34/lb. at a rate of 25 tons per month. The estimated unit cost for Mark V-E is \$1.76/lb. at the end of the period at a rate of 25 tons per month.

Based on those production rates which are essentially one-half capacity for Sylcor, the estimates for canning are considered reasonable.

Direct Labor - Overhead Ratios

	Actual		Est. 10/1/63-9/30/64	
	Jan. 1964	July-Jan.	P-64-2	P-64-4
Direct Labor	\$ 76,000	\$533,000	\$ 723,000	\$ 732,000
Overhead	105,000	601,000	862,000	890,000
Ratio	138%	112%	119%	122%

Based on a declining direct labor base and on experience in January 1964, the total overhead and ratios are not considered unreasonable.

G & A

Total Cost Subject to G & A	\$2,184,000	\$2,286,000
G & A	173,000	172,000
Ratio	7.9%	7.5%

Personnel

<u>Man-Months</u>	<u>P-64-2</u>	<u>P-64-4</u>
Mark V-E	492	812
Mark V-B	819	591
Development	170	84
Thorium	10	22
Equipment Fabr.	117	76
Tooling	23	11
Expense	228	231
Total	<u>1,859</u>	<u>1,827</u>
Employment end of period	115	118

Revised Estimate by Program

	<u>Fee Base Cost</u>	<u>Fee</u>	<u>Total</u>
Mark V-E	\$1,265,560	\$ 82,669 ^{a/}	\$1,348,229
Mark V-B	935,215	56,113	991,328
Thorium	11,200	672	11,872
Development	103,620	6,217	109,837
Tooling	5,755	345	6,100
Equipment Fabr.	112,250	-0-	112,250
Adjustment (Dev.)	(1,800) ^{b/}	(108) ^{b/}	(1,908)
Total	<u>\$2,431,800</u>	<u>\$145,908</u>	<u>\$2,577,708</u>
Purchased Equipment	87,900	-0-	87,900
Total	<u>\$2,519,700</u>	<u>\$145,908</u>	<u>\$2,665,608</u>

^{a/} Includes \$6,735 fee on fabricated equipment.

^{b/} Cost and fee approved in contract period ending September 30, 1963.

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USDOE 017829

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J. S. Hopkins

-4-

MAR 13 1964

Conclusion

Accept Sylcor's proposal P-64-4 as revised March 4, 1964.

Contract Finance Information

Recap of Revised Costs and Commission Obligation

Summary of Estimated Costs and Fixed Fees

	<u>Mod. 35</u>	<u>Inc. (Dec.)</u>	<u>Mod. 36</u>
Operating Cost	\$28,667,541	\$ 381,913	\$29,049,454
Plant & Capital Equip. - Beginning July 1, 1963	373,032	(156,743)	216,289 ^{a/}
Fixed Fee Operations	<u>1,629,891</u>	<u>4,632</u>	<u>1,634,523</u>
Total Estimated Cost and Fixed Fee	<u>\$30,670,464</u>	<u>\$ 229,802</u>	<u>\$30,900,266^{a/}</u>
Commission Obligation			\$30,870,266

a/ Includes \$30,000 for first quarter FY 1965 authorizations not to be obligated in FY 1964.

To be obligated upon execution of Modification 36 of contract.

Operating Costs	\$ 386,545
Equipment (deobligation)	(18,000)

Contract Articles

2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,265,743, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,634,523. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work for the period October 1, 1963, to September 30, 1964, is \$2,545,200, exclusive of the Contractor's fixed fee of \$145,908."

3. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$29,326,218" is deleted and the figure "\$30,870,266" is substituted therefor.

4. The following new subparagraph (e) is added to paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE:

"(e) The fixed fee applicable to work performed during the period October 1, 1963, to September 30, 1964, is \$145,908."

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USDOE 017830

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J. S. Hopkins

-5-

MAR 13 1964

5. The following new subparagraph (e) is added to paragraph 2.,
Payment of Fixed Fee, of Article VI - PAYMENTS:

"(e) For the period October 1, 1963, through September 30,
1964, ninety per cent (90%) of the fixed fee of
\$145,908 shall become due and payable in monthly
installments as follows:

October 1963 - December 196 ³ 4	\$13,883
January 1964 - September 1964	\$ 9,963

cc: J. J. Wise, Asst. Manager for Admin.
N. J. Donahue, T&P Division
E. W. Stark, Accounting Branch
R. A. Messick, Contract Fin. Branch

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USDOE 017831

U. S. ATOMICS ENERGY COMMISSION
Savannah River Operations Office

Modification No. 36
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Amend scope of work and other provisions of the
Contract.

EFFECTIVE DATE : February 1, 1964

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 35</u>	<u>Increase (Decrease)</u>	<u>Modification No. 36</u>
<u>Summary of Estimated Costs and Fixed Fee</u>			
Operating Cost	\$28,667,541	\$ 381,913	\$29,049,454
Plant and Capital Equip. (Beginning July 1, 1963)	373,032	(156,743)	216,289 a/
Fixed Fee (Operations)	<u>1,629,891</u>	<u>4,632</u>	<u>1,634,523</u>
Total Estimated Cost and Fixed Fee	<u>\$30,670,464</u>	<u>\$ 229,802</u>	<u>\$30,900,266 a/</u>
Commission Obligation			<u>\$30,870,266</u>

a/ Includes \$30,000 for first quarter FY 1965 authorizations not to be obligated
in FY 1964.

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U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 36
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 20th day of April, 1964, effective February 1, 1964, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,265,743, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,634,523. The estimated cost of the work as described in paragraph 1. of the article entitled SCOPE OF WORK for the period October 1, 1963, to September 30, 1964, is \$2,545,200, exclusive of the Contractor's fixed fee of \$145,908."
2. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$29,326,218" is deleted and the figure "\$30,870,266" is substituted therefor.
3. Subparagraph (e) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read as follows:
 - "(e) The fixed fee applicable to work performed during the period October 1, 1963, to September 30, 1964, is \$145,908."

USDOE 017323

Modification No. 36
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. Subparagraph (e) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

"(e) For the period October 1, 1963, through September 30, 1964, ninety percent (90%) of the fixed fee of \$145,908 shall become due and payable in monthly installments as follows:

October 1963 - December 1964	\$13,883
January 1964 - September 1964	9,963

5. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, as amended, is further amended as of February 1, 1964, and is attached hereto and made a part hereof.

6. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: /s/ R. C. Blair

TITLE: Manager. SROO

WITNESSES:

/s/ M. Boll

Hicksville, New York
(Address)

/s/ J. Steglis

Hicksville, New York
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

BY: /s/ D. B. Metz

TITLE: Manufacturing Manager

Modification No. 36
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

I, J. M. Toohar, certify that I am Asst. Secretary
of Sylvania Electric Products Inc., named above; that D. B. Metz
who signed this Agreement on behalf of said corporation, was then Mfg. Manager,
Sylcor Division, of said corporation; and that this Agreement was
duly signed for and in behalf of said corporation by authority of its governing
body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 9th day of April
1964.

(CORPORATE SEAL)

/s/ J. M. Toohar

A

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office
FINDINGS AND DETERMINATION

AUTHORIZATION FOR MODIFICATION OF COST-PLUS-FIXED-FEE CONTRACT

SYLCOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.
Contract AT(30-1)-1293
Modification No. 36

The Atomic Energy Commission proposes to modify its cost-plus-fixed-fee contract with Sylcor Division, Sylvania Electric Products Inc. to amend the scope of work to be performed by the Contractor during the period October 1, 1963, through September 30, 1964.

I hereby find that a modification to the cost-plus-fixed-fee type contract is necessary for the following reasons:

1. Specifications for the production of metal units are not sufficiently definitive to permit entering an immediate unit-price arrangement.
2. Program requirements are subject to immediate change.
3. Continuous process development is required.
4. The revised estimated cost of the work under the contract, \$2,545,200 is considered reasonable.
5. The fixed fee adjustment is based on the previously applied rate of six percent of the estimated cost fee base and is considered to be fair and equitable.

Upon the basis of the findings set forth above, I hereby determine that it is impracticable to secure services of the kind and quality desired without the use of a cost-plus-fixed-fee Supplemental Agreement, and I hereby authorize the use of said Supplemental Agreement.

BY: H. L. Kilburn
TITLE: Savannah River Operations Office
DATE: APR 2 1964

U. S. ATOMICS ENERGY COMMISSION
Savannah River Operations Office

Modification No. 36
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.,
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Amend scope of work and other provisions of the
Contract.

EFFECTIVE DATE : February 1, 1964

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 35</u>	<u>Increase (Decrease)</u>	<u>Modification No. 36</u>
<u>Summary of Estimated Costs and Fixed Fee</u>			
<u>Operating Cost</u>	\$28,667,541	\$ 381,913	\$29,049,454
<u>Plant and Capital Equip. (Beginning July 1, 1963)</u>	373,032	(156,743)	216,289 a/
<u>Fixed Fee (Operations)</u>	<u>1,629,891</u>	<u>4,632</u>	<u>1,634,523</u>
<u>Total Estimated Cost and Fixed Fee</u>	<u>\$30,670,464</u>	<u>\$ 229,802</u>	<u>\$30,900,266 a/</u>
Commission Obligation			<u>\$30,870,266</u>

a/ Includes \$30,000 for first quarter FY 1965 authorizations not to be obligated
in Fy 1964.



U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 36
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 20th day of April, 1964, effective February 1, 1964, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,265,743, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,634,523. The estimated cost of the work as described in paragraph 1. of the article entitled SCOPE OF WORK for the period October 1, 1963, to September 30, 1964, is \$2,545,200, exclusive of the Contractor's fixed fee of \$145,908."

2. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$29,326,218" is deleted and the figure "\$30,870,266" is substituted therefor.
3. Subparagraph (e) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read as follows:

"(e) The fixed fee applicable to work performed during the period October 1, 1963, to September 30, 1964, is \$145,908."

Modification No. 36
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. Subparagraph (e) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

"(e) For the period October 1, 1963, through September 30, 1964, ninety per cent (90%) of the fixed fee of \$145,908 shall become due and payable in monthly installments as follows:

October 1963 - December 1964 ³⁰⁰⁰⁰⁰ \$13,883
January 1964 - September 1964 9,963

5. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, as amended, is further amended as of February 1, 1964, and is attached hereto and made a part hereof.

6. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: [Signature]
R. C. Baly, Manager
TITLE: Savannah River Operations Office

WITNESSES:

[Signature]

Nickanille N.Y.
(Address)

[Signature]

Nickanille, N.Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

BY: [Signature]

TITLE: Manufacturing Manager
Sylcor Div.

*Asm
R
A
J
8
14*

Modification No. 36
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

I, J. M. TOOPER, certify that I am ASST. SECRETARY
of Sylvania Electric Products Inc., named above; that D. B. METZ
who signed this Agreement on behalf of said corporation, was then MFG MGR
Sylvania Div. of said corporation, and that this Agreement was
duly signed for and in behalf of said corporation by authority of its governing
body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this 9th day of APRIL
1964.

(CORPORATE SEAL)

J. M. Tooper

SYLVANIA ELECTRIC PRODUCTS INC.

SYLOR DIVISION

HICKSVILLE, NEW YORK

APRIL 20, 1964

PROPOSAL TO AEC SROO

Use of Government Owned Facilities
In Performance of Private Commercial Work

- I. For purposes of this agreement all private commercial work will be referred to as "outside work" and will be considered work for the Sylor Commercial Plant at Hicksville. All outside work to be performed will be requested on the Sylor Work Order Form to be approved by the AEC SROO prior to start of work (or in accordance with agreements to be made with AEC).
- II. The work under Contract AT(30-1)-1293 shall at all times, and without any qualification or limitation whatsoever, have the absolute priority in time, effort, and in all other significant respects over any outside work. This agreement excludes all cost type work performed under an Appendix "C" agreement sponsored by the AEC as provided for in the contract under paragraph 2 of article 1.
- III. The work to be performed under this agreement will exclude the AEC Production, Inspection and Process Control Departments including the area occupied, equipment and personnel of these departments. These departments will hereinafter be referred to as AEC Operations Departments.
- IV. The work to be performed under this agreement will include the Area Occupied, Equipment and Personnel of the following departments hereinafter referred to as Production Support Departments:

<u>Dept. #</u>	<u>Name</u>
21	Chemical Services
23	Engineering Dept.
24	Machining Services
27	Plant Engineering (Drafting & Maint.)
29	Metallography Services

- V. The AEC Plant (Contract 1293) expenses will be credited monthly on a full cost reimbursement basis for all outside work performed by the Production Support Departments for the sum total of the following expenses:

1. Direct Labor

Based on actual time card charges to job numbers assigned to outside work.

contin

SYLVANIA ELECTRIC PRODUCTS INC.

SYLCOB DIVISION

HICKSVILLE, NEW YORK

Page 2

PROPOSAL TO AEC SROC

V. (continued)

2. Overhead

An overhead rate to be applied to direct labor which represents total AEC Plant overhead including all service department prorates and security department expenses.

A provisional rate will be established for interim use on outside work. This provisional rate will be adjusted to actual on a semi-annual basis.

3. Depreciation of AEC Owned Equipment

An overhead rate to be applied to direct labor which represents the depreciation of the equipment included in the production support departments. The amount charged will be calculated using the depreciation rates recorded on AEC records and will include an amount to represent depreciation on fully depreciated items.

A provisional rate will be established for interim use on outside work. This provisional rate will be adjusted to actual on a semi-annual basis.

The depreciation overhead rate will be arrived at by dividing the total direct labor of the Production Support Departments into the total depreciation dollars of the equipment in these departments plus an allocation of the Administration Department equipment depreciation. Due to the specialized nature of the plating equipment a separate rate will be established for outside plating work in the event such work becomes available.

4. Stores Materials

Any common use materials withdrawn from the stockroom for use on outside work will be charged to the job on the basis of a properly approved Stores Requisition charging the appropriate outside work order.

5. Charge For AEC Administration

A factor to be agreed upon by the parties will be applied to the sum of items 1 through 4 above. This amount will be credited to the AEC contract and will represent a charge for AEC administration of the procedures of this agreement.

continued -

SYLVANIA ELECTRIC PRODUCTS INC.

SYLCOF DIVISION

HICKSVILLE, NEW YORK

Page 3

PROPOSAL NO. 1001 0000

- VI. The Work Order form will show the job number, customer, estimated cost in detail and a complete description of the work to be done and the facilities to be used. The period of performance will also be indicated on the work order. Work will not be contracted for in excess of a six (6) month period.
- VII. An up-to-date listing of all equipment included in the Production Support Departments will be maintained showing tag number, date acquired, first cost, annual and monthly depreciation amounts. This listing will substantiate the monthly depreciation amounts to be used in developing the Depreciation Schedule Rate described in Article V Paragraph 3.

SYLVANIA

Contracts - 7-3

Twx No. Hkvl 2358

407.6

SYLVANIA ELECTRIC PRODUCTS INC.

Subsidiary of GENERAL TELEPHONE & ELECTRONICS CORPORATION



Sylcor Division

Cantiague Road
Hicksville, N. Y.

May 1, 1964

Dr. Glenn T. Seaborg, Chairman
U.S. Atomic Energy Commission
Washington, D.C.

Dear Dr. Seaborg:

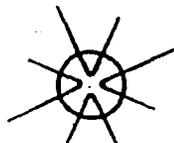
Your letter of April 25 was appreciated. Immediately upon receipt of it, I called a meeting of management of our Sylcor Division, which is responsible for contract AT(30-1)-1293, at which we reviewed and discussed your recommendations and suggestions for cost reduction in keeping with President Johnson's program.

Let me say at the outset that Sylcor will, aggressively and enthusiastically, follow these recommendations. In addition, we shall continue to follow those plans of our own which were drafted in the past with the sole intent of realizing substantial cost reduction for the AEC in 1964 and subsequent years. In this regard, may I indulge your patience and cite a few specifics.

We believe our program in the cladding of fuel elements for Savannah River will result in savings of approximately \$1.5 million to the AEC in calendar year 1964. We break this down as follows:

1. Our new re-cladding process that will eliminate the remelting of uranium used in the V-B and V-E programs

NUCLEAR FUEL ELEMENTS



DOE Hist Div
AECSECY Files 58-6
Job 0020, Box 1332
F: Contracts - 1-7010
CUSTOM METALLURGY (C)

USDOE 000255

at Savannah River. We estimate 1964 savings to the AEC under this development to be about \$1,118,000.

2. Our mechanization of the cladding operation which reduces the manpower on our main product line by more than 50%. We estimate 1964 savings to the AEC under this development at \$480,000.

The two programs cited above are typical of the many other cost reduction programs we have instituted in the past which, we believe, have gained us an enviable reputation with the AEC. On the attached separate sheet I have outlined some of our previous achievements in the areas of cost reduction and quality improvement.

As you know, however, off-site development funds have been cancelled as of June 30, 1964.

In addition, our program has been reduced by 30% due to the reduction of the weapons program at Savannah River. We believe, however, that because of the mechanized process cited above, we can carry out these lower levels of production on an extremely economical basis.

Our present contract expires on September 30, 1964. It is our impression -- gained during numerous discussions with AEC personnel -- there is a strong probability that our contract will be allowed to expire as of September 30, and all canning work consolidated at Savannah River.

It should be stated here that cladding costs consistently have been less expensive at Sylcor. While it might appear that out-of-pocket costs may be saved in fiscal 1965 by consolidation of this work at Savannah River, we at Sylcor believe sincerely that, in the long run, it will be substantially less costly for the AEC to continue the competitive procedures and spirit that has existed between the two sites.

In the interests of the AEC, we believe that the data presented on cost savings for fiscal years 1965 and 1966,

Dr. Seaborg

-3-

5/1/64

now in the possession of the Commission, should be reviewed on the basis of long-term effectiveness and cost saving, rather than on what appears to be a less valid basis of out-of-pocket savings for fiscal 1965.

My associates and I should be happy to meet at any time with any members of the AEC you might designate to provide further information, or for amplification and confirmation of the data already submitted.

Sincerely yours,

SYLCOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC



G. L. Moran
Vice President & General Manager

GLM/gg
Att:

USDOE 000258

Roland A. Anderson, Assistant General
Counsel for Patents, Germantown

May 7, 1964

Randall G. Erdley, Chief
Savannah River Patent Group

MODIFICATION NO. 36 - SUPPLEMENTAL AGREEMENT TO CONTRACT
AT(30-1)-1293 WITH SYLVANIA ELECTRIC PRODUCTS, INC.

CP:AFW:cm

The subject modification authorizes an increase in obligation
of funds from (\$29,326,218 to \$30,870,266) with \$145,908 designated
as fixed fee applicable to work performed during the period
October 1, 1963 to September 30, 1964.

OFFICE ▶	Patent Br.					
SURNAME ▶	RRG					
DATE ▶	5-7-64					

~~SECRET~~

UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

TO : J. S. Hopkins, Director
Administrative Division

FROM : *A. Y. Morgan*
A. Y. Morgan, Director
Budget and Finance Division

DATE: JUN 20 1964

SUBJECT: REVIEW OF SYLCOR PROPOSAL P-64-6

Document No. SR-FD-1064

FB:MER:ac

This document consists of 5 pages.

No. 1 of 2 copies. Series A

We have reviewed Sylcor's proposal (P-64-6 of June 11, 1964, revised by teletype of June 22, 1964).

The following scope changes, cost analysis, conclusion, and contract finance information are submitted for your consideration in preparing a modification to the contract.

Scope changes from P-64-4 as authorized in teletype from Blair to Metz on March 13, 1964 are as follows. The Mark V-E scope change was authorized on the March 13, 1964 teletype.

A) Scope Changes

- (1) Increase in Mark V-E tonnage by 14 tons
- (2) Machining and canning of 7,000 thorium slugs
- (3) Production of 190 sets of Mark V-B extended length slugs
- (4) Deletion of Process Development after May 31, 1964

B) Cost Changes

To accomplish the above net change in scope, Sylcor estimates a net increase in cost subject to fee of \$62,810 with an increase in fee of \$3,769. We believe this increase to be reasonable and justified.

Analysis of Change in Fee Base P-64-6

	P-64-6 Proposed		P-64-4 Current		Change	
	Cost	Fee	Cost	Fee	Cost	Fee
Mark V-E	\$1,252,860	\$ 75,172	\$1,265,560	\$ 75,934	\$(12,700)	\$ (762)
Mark V-B (Reg.)	920,450	55,227	935,215	56,113	(14,765)	(886)
Mark V-B (Long)	64,030	3,842	-	-	64,030	3,842
Dev.	90,850	5,451	103,620	6,217	(12,770)	(766)
Tooling	650	39	5,755	345	(5,105)	(306)
Thorium	53,250	3,195	11,200	672	42,050	2,523
Equip.	114,320	6,859	112,250	6,735	2,070	124
Adj. Zirc. (Prior)	(1,800)	(108)	(1,800)	(108)	-	-
Total	\$2,494,610	\$149,677	\$2,431,800	\$145,908	\$ 62,810	\$3,769

DEPARTMENT OF ENERGY - GAYANNAH RIVER DECLASSIFICATION REVIEW
 Determination (Circle Number)
 1. Classification Unchanged
 2. Classification changed to:
 3. Classification Canceled
 4. Other: CG/N/P-2 940

1st Review Date: 4/3/63
 Authority: E. A. Black
 Name: E. A. Black
 2nd Review Date: 4/13/63
 Authority: ADD
 Name: J. S. Hopkins



GROUP 1
EXCLUDED FROM AUTOMATIC
DOWNGRADING AND
DECLASSIFICATION

UNCLASSIFIED

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Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

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~~SECRET~~

J. S. Hopkins

- 2 -

JUN 20 1964

	10/1/63 1/31/64 P-64-2	2/1/64 5/31/64 P-64-4	6/1/64 9/30/64 P-64-6	Total
Fee Base				
Direct Labor	\$ 333,930	\$237,530	\$197,500	\$ 769,010
Direct Mat.	283,380	211,200	181,800	676,380
Overhead	355,240	294,370	248,230	897,840
G & A	69,430	56,830	49,970	176,230
Total	<u>\$1,042,030</u>	<u>\$799,930</u>	<u>\$677,500</u>	<u>\$2,519,460</u>
Adjustments				
Tooling (P-64-4)				) (12,000)
Tooling (P-64-6)				(2,750)
Fab. Equip. (P-64-4)				(8,300)
Dev. Prior (P-64-2)				(1,300)
Net Fee Base				<u>\$2,494,610</u>
Fee @ 6%				) 149,877

In their proposal P-64-6 Sylcor had included in their fee base some \$3,380 for Du Pont Tooling. In discussions with Sylcor it was agreed that the tooling program was to be discontinued after only a small amount of work and the tooling amount in the fee base would be decreased by \$2,750. The other adjustments listed above were negotiated in prior contract periods.

The revised estimated cost including fee for the contract period is compared to the currently estimated cost in the following table. The amounts in the column P-64-4 include actual cost through January 31, 1964, and in P-64-6 actual costs are included through May 31, 1964.

	P-64-4	P-64-6	Increase or (Decrease)
Mark V-E	\$1,381,269 ^{a/}	\$1,383,007 ^{a/}	\$ 1,738
Mark V-B - Regular	986,313	977,326	(8,987)
Mark V-E - Long	-0-	67,872	67,872
Development	120,509	110,567	(9,942)
Thorium	18,172	62,752	44,580
Tooling	6,145	674	(5,471)
Subtotal	<u>\$2,512,408</u>	<u>\$2,602,198</u>	<u>\$ 89,790</u>
Fab. Equipment	\$ 90,800	\$ 96,878	\$ (6,078)
Purchased Equipment	87,900	63,700	(24,200)
Subtotal	<u>\$ 178,700</u>	<u>\$ 150,578</u>	<u>\$ (28,122)</u>
Total Cost	<u>\$2,691,108</u>	<u>\$2,752,776</u>	<u>\$ 61,668</u>

^{a/} Includes fee on fabricated equipment of \$6,735 and \$6,359, respectively.

USDOE 017822

	<u>P-64-4</u>	<u>P-64-6</u>	<u>Increase or (Decrease)</u>
<u>Production (Delivered)</u>			
Mark V-E - Tons	338	352	14
Mark V-B - Reg. - Tons	363	363	-0-
Mark V-B - Long - Sets	-0-	130	130
Thorium Slugs - Old Program	2,794	2,794	-0-
Thorium Slugs - New Program	-0-	7,000	7,000
<u>Unit Cost (Actual Cost & Production)</u>			
Mark V-E Lb.	\$2.11	\$2.03	\$(.08)
Mark V-B Lb. - Reg.	1.35	1.31	(.04)
Thorium (New) Lb.	-0-	2.23	-0-
Thorium (Old) Lb.	3.21	-0-	-0-

The unit costs for the major products remain relatively stable -- the slight decrease being due to the added activities which bear a portion of fixed overhead.

The unit price on old thorium slugs is that experienced in the period from July to December 1964. A unit cost on a per-slug and per-pound basis is as follows between the old and the new thorium:

	<u>Old</u>	<u>New</u>
Total Cost	\$72,589	\$44,573
Production Lbs.	22,619	20,000
Production Slugs	11,793	7,000
Unit Cost/Slug	\$6.15	\$6.36
Unit Cost/Lb.	\$3.21	\$2.23
<u>Personnel Man-Months</u>		
Direct	1,599	1,637
Expense	227	217
Total	<u>1,826</u>	<u>1,854</u>
No. of Personnel Year End 9/30/64	118	113

It is assumed from the above that the increased work will be performed with overtime or a better utilization of labor will be made than previously anticipated.

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J. S. Hopkins

- 4 -

JUN 20 1964

Overhead - Direct Labor Ratios

	Actual 10/1/63 5/30/64	Actual May 1964	Fee Base	
			Estimate 10/1/63 - 5/30/64 P-64-2	P-64-6
Direct Labor	\$534,000	\$ 50,000	\$733,000	\$769,000
Overhead	689,000	62,000	873,000	898,000
Ratio	129%	124%	119%	117%

The actual overhead ratio expected to be experienced in the contract period is as follows:

	<u>P-64-6</u>
Direct Labor	\$732,000
Overhead	937,000
Ratio	128%

Based on actual overhead experience, the amount included in the base for fee is not considered unreasonable.

(C) Conclusion

We accept Sylcor's proposal (P-64-6 as revised by teletype of 6/22/64) as submitted since a significant increase in scope is to be obtained with only a modest increase in cost and fee.

In future proposals consider elimination of fee on fabricated equipment and request that Sylcor be more comprehensive in analyzing changes.

(D) Contract Finance Information

<u>Cost & Fee by Activity</u>	<u>Cost</u>	<u>Fee</u>	<u>Total</u>
Mark V-E	\$1,300,976	\$ 82,031 ^{a/}	\$1,383,007
Mark V-B - Regular	922,099	55,227	977,326
Mark V-B - Long	64,030	3,842	67,872
Thorium - Old Program	17,507	672	18,179
Thorium - New Program	42,050	2,523	44,573
Development	105,224	5,343	110,567
Tooling	835	39	674
Fabricated Equipment	86,378	^{a/}	86,378
Purchased Equipment	63,700	-0-	63,700
Total	<u>\$2,603,099</u>	<u>\$149,677</u>	<u>\$2,752,776</u>

^{a/} Includes \$6,859 fee on fabricated equipment.

USDOE 017824

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J. S. Hopkins

- 5 -

JUN 26 1964

Recap of Revised Costs and Commission Obligation

Summary of Estimated Costs and Fixed Fees

	<u>Mod. 36</u>	<u>Incr. (Decr.)</u>	<u>Mod. 37</u>
Operating Cost	\$29,049,454	\$60,519	\$29,109,973
Plant & Capital Equipment (Beginning 7/1/63)	216,289 ^{a/}	-0-	216,289 ^{a/}
Fixed Fee (Operations)	<u>1,634,523</u>	<u>3,769</u>	<u>1,638,292</u>
Total Est. Cost & Fixed Fee	<u>\$30,900,266</u>	<u>\$64,288</u>	<u>\$30,964,554</u>
Commission Obligation	\$30,870,266	\$64,288	\$30,934,554

a/ Includes \$30,000 for first quarter FY 1965 authorizations.
not to be obligated in FY 1964.

Contract Articles

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,326,262, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,638,292. The estimated cost of the work as described in paragraph 1. of the article entitled SCOPE OF WORK for the period October 1, 1963, to September 30, 1964, is \$2,603,099, exclusive of the Contractor's fixed fee of \$149,677."

2. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$30,870,266" is deleted and the figure "\$30,934,554" is substituted therefor.

3. Subparagraph (e) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read as follows:

"(e) The fixed fee applicable to work performed during the period October 1, 1963, to September 30, 1964, is \$149,677."

4. Subparagraph (e) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

"(e) For the period October 1, 1963, through September 30, 1964, ninety percent (90%) of the fixed fee of \$149,677 shall become due and payable in monthly installments as follows:

October 1963 - December 1963	\$13,883
January 1964 - May 1964	9,963
June 1964 - September 1964	10,311

cc: J. J. Wise, Asst. Mgr. for Adm.
K. J. Donahue, T&P Div.
R. W. Stark, Acctg. Br.
R. A. Messick, Contract Fin. Br.

USDOE 017825

A

WDRG DECLASSIFICATION REVIEW

4/28/64
 Rh Collins
 Authority: ADD
 Name: *[Handwritten]*

1. Classification Unchanged
 2. Classification Changed To:
 3. Classification Cancelled
 4. Other: *CG-RMP-2*
gpo

This document consists of ~~10~~ pages
 No. / ~~1~~ / ~~1~~ copies, Series A.

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 REVISED JUNE 30, 1964, UNDER
 MODIFICATION NO. 37

The scope of work to be performed by the Contractor during the period October 1, 1963, through September 30, 1964, as set forth by Modification No. 36 is revised to read as follows:

1. PRODUCTION

A. MARK V-B AND MARK V-E (Inner Fuel)

The Contractor shall manufacture and furnish to the Commission Mark V-B and Mark V-E slugs at monthly tonnages as follows:

	Mark V-B (Tons) Integral Rib	Mark V-E (Tons) Integral Rib
October 1963	45	48
November 1963	47	20
December 1963	44	26
January 1964	41	28
February 1964	29	33
March 1964	19	33
April 1964	26	36
May 1964	24	33
June 1964	26	36
July 1964	12	13
August 1964	25	23
September 1964	25	23

B. EXTENDED LENGTH MARK V-B SLUGS

Effective June 30, 1964, undertake the canning for delivery by September 30, 1964, of 190 sets of extended length Mark V-B slugs.

C. THORIUM

- Complete the canning and delivery of 11,500 Mark VII-T slugs for irradiation at the Savannah River Plant.
- Recover and re clad by December 23, 1963, approximately 500 Mark VII-T slugs to standard quality and dimensional specification except that the slug length is to be 6.400 + 0.070 inch.

GROUP 1
 EXCLUDED FROM AUTOMATIC
 DOWNGRADING AND
 DECLASSIFICATION

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 7/27/66*

3. Effective June 30, 1964, undertake the swaging, machining, cladding and welding of approximately 7,000 solid thorium slugs for shipment to SRP by August 21, 1964.

II. DEVELOPMENT

A. ELEMENT DEVELOPMENT

1. Long Slugs

Develop a process for canning Mark V-B and Mark V-E IF and OF Elements up to 16" in length by the hot pressure bonding process. Both impact extrusions and tubing will be investigated for cladding.

This program shall include the establishment of standards, specifications and operating procedures and all necessary research, development, canning and data accumulation. Also, qualification and reactor test slugs will be made.

2. Added Rib

Continue development of the canning of Mark V-B IF elements with added ribs. Investigate the use of other types of aluminum for the rib and changes in the physical structure of the rib.

This program shall include the establishment of standards, specifications and operating procedures and all necessary research, development, canning and data accumulation. Also, qualification and reactor test slugs will be made.

3. Tube Cladding

Study the effects of the use of tubing as cladding for Mark V-B and V-E IF hot pressure bonded slugs.

4. Recovery of Mark V-E

Develop a recovery program to reclaim reject Mark V-E IF slugs and reuse the cores. Set up standards, specifications and operating procedures, whereby reject slugs may be declad and reprocessed through the HPB process.

B. TOOLING AND CLADDING MATERIALS

1. Furnace Tooling

Investigate potential improvements in quality and economy attainable through the replacement of Inconel X by such metals as AF71 or Inconel

for furnace tooling, such as mandrels, dies and vacuum pots. Make items of promising materials and test them in the HPB process.

2. Cladding

Investigate potential advantages of low alloys of aluminum as cladding material. Test the most promising materials, such as aluminum with additives of beryllium or germanium, in the HPB process, for further evaluation at SRP.

C. INDUCTION HEATING

1. Heat Pattern Control

Run a series of experiments on HPB induction furnaces to determine actual heat patterns and provide a consistent improved control of the heat applied to the slug.

Investigate the possible use of scanning equipment which will designate the temperature of the die as it leaves the furnace, thereby offering additional improvement of heat pattern control.

2. Cores with Anodic Etch

Investigate possible improvement of HPB strengths by the use of anodic etching of cores before plating and the rapid heat-up cycle attainable with induction furnaces.

D. NONDESTRUCTIVE TESTING

1. Eutectic Prevention

Investigate new methods for the detection of Mark V-B and V-E slugs that have been overheated during the pressing cycle, such as the use of magnetic and hysteresis effects and the chemical test which showed promise with Mark VII-A slugs.

2. Nickel Plate Control

Continue investigation of new types of nickel detection and measurement, such as the magnetic probe, to provide a closer control of the nickel plate on cores.

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED JUNE 30, 1964, UNDER
MODIFICATION NO. 37

3. Uranium Metal Quality

Refine and test ultrasonic equipment for potential use in the detection of metal quality rejects before plating.

4. Aluminum Metal Quality

Investigate methods of improving the detection of metal quality rejects in aluminum cladding components before they are used.

III. DU PONT TOOLING

The Contractor shall furnish all materials, services and supplies necessary to perform all work authorized by the Commission in furtherance of the Du Pont Tooling Program.

B

~~CONFIDENTIAL~~

Review Date: 4/28/04 (Source Number)

Start only ADD ADD

Name: R. Collins

End Review Date: 4/28/04

Authority: ADD

Name: R. Collins

1. Classification Unchanged

2. Classification Changed To:

3. Classification Cancelled

4. Other: CG-NMP 2, 9A

This document consists of 6 pages
 No. 1 of 2 copies Series A.

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 REVISED AUGUST 1, 1964, UNDER
 MODIFICATION NO. 38

The scope of work to be performed by the Contractor during the period October 1, 1963, through September 30, 1964, as set forth by Modification No. 37 is revised to read as follows:

1. PRODUCTION
- A. MARK V-B AND MARK V-E (Inner Fuel)

The Contractor shall manufacture and furnish to the Commission Mark V-B and Mark V-E slugs at monthly tonnages as follows:

	Mark V-B (Tons) Integral Rib	Mark V-E (Tons) Integral Rib
October 1963	45	48
November 1963	47	20
December 1963	44	26
January 1964	41	28
February 1964	29	33
March 1964	19	33
April 1964	26	36
May 1964	24	33
June 1964	26	36
July 1964	12	13
August 1964	19	23
September 1964	19	23

B. EXTENDED LENGTH MARK V-B SLUGS

Effective June 30, 1964, undertake the canning for delivery by September 30, 1964, of 190 sets of extended length Mark V-B slugs.

C. THORIUM

1. Complete the canning and delivery of 11,500 Mark VII-T slugs for irradiation at the Savannah River Plant.
2. Recover and re clad by December 23, 1963, approximately 500 Mark VII-T slugs to standard quality and dimensional specification except that the slug length is to be 6.400 ± 0.070 inch.

GROUP 1
 EXCLUDED FROM AUTOMATIC
 DOWNGRADING AND
 DECLASSIFICATION

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3. Effective June 30, 1964, undertake the swaging, machining, cladding and welding of approximately 13,000 solid thorium slugs for shipment to SRP as follows:

<u>Quantity</u>	<u>Delivery Date</u>
7,000	by August 21, 1964
6,000	by September 30, 1964

II. DEVELOPMENT

A. ELEMENT DEVELOPMENT

1. Long Slugs

Develop a process for canning Mark V-B and Mark V-E IF and OF elements up to 16" in length by the hot pressure bonding process. Both impact extrusions and tubing will be investigated for cladding

This program shall include the establishment of standards, specifications and operating procedures and all necessary research, development, canning and data accumulation. Also, qualification and reactor test slugs will be made.

2. Added Rib

Continue development of the canning of Mark V-B IF elements with added ribs. Investigate the use of other types of aluminum for the rib and changes in the physical structure of the rib.

This program shall include the establishment of standards, specifications and operating procedures and all necessary research, development, canning and data accumulation. Also, qualification and reactor test slugs will be made.

3. Tube Cladding

Study the effects of the use of tubing as cladding for Mark V-B and V-E IF hot pressure bonded slugs.

4. Recovery of Mark V-E

Develop a recovery program to reclaim reject Mark V-E IF slugs and reuse the cores. Set up standards, specifications and operating procedures, whereby reject slugs may be declad and reprocessed through the HPB process.

[REDACTED]

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED AUGUST 1, 1964, UNDER
MODIFICATION NO. 38

B. TOOLING AND CLADDING MATERIALS

1. Furnace Tooling

Investigate potential improvements in quality and economy attainable through the replacement of Inconel X by such metals as AF71 or Inconel for furnace tooling, such as mandrels, dies and vacuum pots. Make items of promising materials and test them in the HPB process.

2. Cladding

Investigate potential advantages of low alloys of aluminum as cladding material. Test the most promising materials, such as aluminum with additives of beryllium or germanium, in the HPB process, for further evaluation at SRP.

C. INDUCTION HEATING

1. Heat Pattern Control

Run a series of experiments on HPB induction furnaces to determine actual heat patterns and provide a consistent improved control of the heat applied to the slug.

Investigate the possible use of scanning equipment which will designate the temperature of the die as it leaves the furnace, thereby offering additional improvement of heat pattern control.

2. Cores with Anodic Etch

Investigate possible improvement of HPB strengths by the use of anodic etching of cores before plating and the rapid heat-up cycle attainable with induction furnaces.

D. NONDESTRUCTIVE TESTING

1. Eutectic Prevention

Investigate new methods for the detection of Mark V-B and V-E slugs that have been overheated during the pressing cycle, such as the use of magnetic and hysteresis effects and the chemical test which showed promise with Mark VII-A slugs.

APPENDIX "B" TO MODIFICATION NO. 29
CONTRACT NO. AT(30-1)-1293
REVISED AUGUST 1, 1964, UNDER
MODIFICATION NO. 38

2. Nickel Plate Control

Continue investigation of new types of nickel detection and measurement, such as the magnetic probe, to provide a closer control of the nickel plate on cores.

3. Uranium Metal Quality

Refine and test ultrasonic equipment for potential use in the detection of metal quality rejects before plating.

4. Aluminum Metal Quality

Investigate methods of improving the detection of metal quality rejects in aluminum cladding components before they are used.

III. DU PONT TOOLING

The Contractor shall furnish all materials, services and supplies necessary to perform all work authorized by the Commission in furtherance of the Du Pont Tooling Program.

~~SECRET~~

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 37
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Amend Scope of work and other provisions of the
Contract

EFFECTIVE DATE : April 1, 1964

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 36</u>	<u>Increase (Decrease)</u>	<u>Modification No. 37</u>
Operating Cost	\$ 29,049,454	\$ 60,519	\$ 29,109,973
Plant and Capital Equipment (Beginning July 1, 1963)	216,289 a/	-0-	216,289
Fixed Fee (Operations)	<u>1,634,523</u>	<u>3,769</u>	<u>1,638,292</u>
Total Estimated Cost and Fixed Fee	<u>\$ 30,900,266</u>	<u>\$ 64,288</u>	<u>\$ 30,964,554</u>
Commission Obligation	<u>\$ 30,870,266</u>	\$ 64,288	<u>\$ 30,934,554</u>

a/ Includes \$30,000 for first quarter FY 1965 authorizations not to be
obligated in FY 1964.

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USDOE 017327

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 37
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 24th day of August, 1964, effective April 1, 1964, unless otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,326,262, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,638,292. The estimated cost of the work as described in paragraph 1. of the article entitled SCOPE OF WORK for the period October 1, 1963, to September 30, 1964, is \$2,603,099, exclusive of the Contractor's fixed fee of \$149,677."

2. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$30,870,266" is deleted and the figure "\$30,934,554" is substituted therefor.
3. Subparagraph (e) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read as follows:

"(e) The fixed fee applicable to the work performed during the period October 1, 1963, to September 30, 1964, is \$149,677."

Modification No. 37
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. Subparagraph (e) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

"(e) For the period October 1, 1963, through September 30, 1964, ninety percent (90%) of the fixed fee of \$149,677 shall become due and payable in monthly installments as follows:

October 1963 - December 1963	\$13,883
January 1964 - May 1964	9,963
June 1964 - September 1964	10,811"

5. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, revised June 30, 1964, under Modification No. 37, attached hereto and made a part hereof.

6. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: /s/ H. L. Kilburn

TITLE: Deputy Manager, SROO

WITNESSES:

/s/ M. Boll

Hicksville, N. Y.

(Address)

/s/ M. Steglic

Hicksville, N. Y.

(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

BY: /s/ D. B. Metz

TITLE: Manufacturing Manager, Sylcor Div.

Modification No. 37
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

I, J. M. Toher, certify that I am Assistant Secretary of Sylvania Electric Products Inc., named above; that D. B. Metz, who signed this agreement on behalf of said corporation, was then Manufacturing Manager - Sylcor Division, of said corporation, and that this agreement was duly signed for and in behalf of said corporation by authority of its governing body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this fourteenth day of August, 1964.

(CORPORATE SEAL)

/s/ J. M. Toher
J. M. Toher, Assistant Secretary

USDOE 017330

Roland A. Anderson, Assistant General
Counsel for Patents, Germantown

August 31, 1964

Randall G. Erdley, Chief
Savannah River Patent Group

MODIFICATION NO. 37- SUPPLEMENTAL AGREEMENT TO CONTRACT
AT(30-1)-1293 WITH SYLVANIA ELECTRIC PRODUCTS, INC.

CP:AFW:cm

The subject modification authorizes an increase in obligation of
funds from \$30,870,266 to \$30,934,554 with \$149,677 designated
as fixed fee applicable to work performed during the period
October 1, 1963 to September 30, 1964.

1164-1600-207-2

OFFICE ▶	<i>Patent Bd.</i>					
SURNAME ▶	<i>ER</i>					
DATE ▶	<i>8/31/64</i>					

A

UNITED STATES ATOMIC ENERGY COMMISSION
Savannah River Operations Office

FINDINGS AND DETERMINATION

Sylcor Division
Sylvania Electric Products Inc.
Contract AT(30-1)-1293
Modification No. 37

The Atomic Energy Commission proposes to modify its cost-plus-fixed-fee contract with Sylcor Division, Sylvania Electric Products Inc., to amend the scope of work to be performed by the Contractor during the period October 1, 1963, through September 30, 1964.

I hereby find that a modification to the cost-plus-fixed-fee type contract is necessary for the following reasons:

1. Specifications for the production of metal units are not sufficiently definitive to permit entering an immediate unit price arrangement.
2. Program requirements are subject to immediate change.

Upon the basis of the findings set forth above, I hereby determine that it is impracticable to secure services of the kind and quality desired without the use of a cost-plus-fixed-fee supplemental agreement, and I hereby authorize the use of said supplemental agreement.

BY:



H. L. Kilburn, Deputy Manager

TITLE: Savannah River Operations Office

DATE:

JUN 30 1964

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 37.
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Amend Scope of work and other provisions of the
Contract

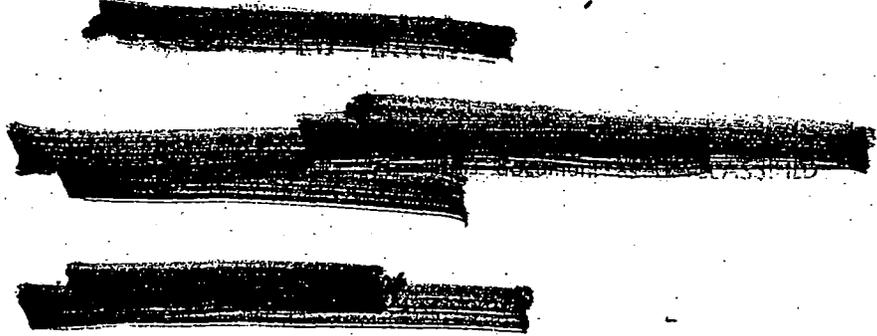
EFFECTIVE DATE : April 1, 1964

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 36</u>	<u>Increase (Decrease)</u>	<u>Modification No. 37</u>
Operating Cost	\$ 29,049,454	\$ 60,519	\$ 29,109,973
Plant and Capital Equipment (Beginning July 1, 1963)	216,289 <u>a/</u>	-0-	216,289
Fixed Fee (Operations)	<u>1,634,523</u>	<u>3,769</u>	<u>1,638,292</u>
Total Estimated Cost and Fixed Fee	<u>\$ 30,900,266</u>	<u>\$ 64,288</u>	<u>\$ 30,964,554</u>
Commission Obligation	\$ 30,870,266	\$ 64,288	\$ 30,934,554

a/ Includes \$30,000 for first quarter FY 1965 authorizations not to be obligated in FY 1964.

... transmitted herewith contains



U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 37
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 24th day of August, 1964, effective April 1, 1964, unless otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,326,262, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,638,292. The estimated cost of the work as described in paragraph 1. of the article entitled SCOPE OF WORK for the period October 1, 1963, to September 30, 1964, is \$2,603,099, exclusive of the Contractor's fixed fee of \$149,677."

2. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$30,870,266" is deleted and the figure "\$30,934,554" is substituted therefor.

3. Subparagraph (e) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read as follows:

"(e) The fixed fee applicable to the work performed during the period October 1, 1963, to September 30, 1964, is \$149,677."

Modification No. 37
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. Subparagraph (e) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

"(e) For the period October 1, 1963, through September 30, 1964, ninety percent (90%) of the fixed fee of \$149,677 shall become due and payable in monthly installments as follows:

October 1963 - December 1963	\$13,883
January 1964 - May 1964	9,963
June 1964 - September 1964	10,811"

5. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, revised June 30, 1964 under Modification No. 37, attached hereto and made a part hereof.

6. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION
BY: H. L. Kilburn
H. L. Kilburn, Deputy Manager
TITLE: Savannah River Operations Office

WITNESSES:

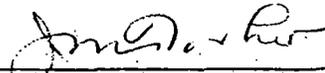
M. Boe
Hicksville, N.Y.
(Address)
M. Boe
Hicksville, N.Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
BY: D. B. Metz
D. B. Metz
TITLE: Manufacturing Manager, Sylcor Div.

Modification No. 37
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

I, J. M. Toher, certify that I am Assistant Secretary of Sylvania Electric Products Inc., named above; that D. B. Metz, who signed this agreement on behalf of said corporation, was then Manufacturing Manager-Sylcor Division, of said corporation, and that this agreement was duly signed for and in behalf of said corporation by authority of its governing body and within the scope of its corporate powers.

WITNESS my hand and seal of said corporation this fourteenth day of August, 1964.



J. M. Toher, Assistant Secretary

(Corporate Seal)

UNITED STATES GOVERNMENT

This document consists of 2 pages,

Memorandum

No. 1 of 2 copies, Series A

TO : J. S. Hopkins, Director
Administrative Division
James R. Jakes
FROM : *for* A. Y. Morgan, Director
Budget & Finance Division

UNCLASSIFIED

DATE: AUG 27 1964

SUBJECT: REVIEW OF SYLCOR PROPOSAL P-64-7

FB:MER:jl

We have reviewed Sylcor's proposal (P-64-7, August 21, 1964). The proposal covers revised costs in August and September, 1964.

The following scope changes, cost analysis, conclusion and contract finance information are submitted for your consideration in preparing Modification 38 to the contract.

(A) Scope Changes (From P-64-6)

- (1) Increase in Thorium canning 6,000 slugs
- (2) Decrease in Mark V-B canning 12 tons.

(B) Cost Changes

To accomplish the above net change in scope, Sylcor estimates a net decrease in cost subject to fee of \$11,850 with a decrease in fee of \$711. From our analysis of the change in scope and cost changes, we believe this change in cost and fee to be reasonable and acceptable.

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date <u>4/3/63</u>	Determination (Circle Number)
Authority: <input checked="" type="checkbox"/> ADC <input type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>J.B. Slack</u>	2. Classification changed to:
2nd Review Date <u>4/8/63</u>	<input checked="" type="checkbox"/> 3. Classification Canceled
Authority: <u>ADD</u>	4. Other: <u>CG-NR2 9-00</u>
Name: <u>Wesley Darden</u>	



GROUP 1
EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION.

UNCLASSIFIED

~~RESTRICTED DATA~~
~~RESTRICTED DATA~~

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Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

AUG 27 1964

Analysis of Change in Fee Base P-64-7

	<u>Proposed P-64-7</u>		<u>Current P-64-6</u>		<u>Change</u>	
	<u>Cost</u>	<u>Fee</u>	<u>Cost</u>	<u>Fee</u>	<u>Cost</u>	<u>Fee</u>
Mark V-E	\$1,238,860	\$ 74,332	\$1,252,860	\$ 75,172	\$(14,000)	\$(840)
Mark V-B (Reg.)	888,500	53,310	920,450	55,227	(31,950)	(1,917)
Mark V-B (12")	68,920	4,135	64,030	3,842	4,890	293
Dev.	90,850	5,451	90,850	5,451	-0-	-0-
Tooling	650	39	650	39	-0-	-0-
Thorium	81,050	4,863	53,250	3,195	27,800	1,668
Equipment	115,730	6,944	114,320	6,859	1,410	85
Adj. Zirc. (Prior)	(1,800)	(108)	(1,800)	(108)	-0-	-0-
Total	<u>\$2,482,760</u>	<u>\$148,966</u>	<u>\$2,494,610</u>	<u>\$149,677</u>	<u>\$(11,850)</u>	<u>\$(711)</u>

<u>Fee Base by Type of Expense</u>	<u>P-64-6</u>	<u>P-64-7</u>	<u>Change</u>
Direct Labor	\$ 769,010	\$ 764,590	\$(4,420)
Direct Materials	676,380	674,680	(1,700)
Overhead	897,840	892,410	(5,430)
G&A	176,230	175,930	(300)

<u>Adjustments</u>			
Tooling (P-64-4)	(12,000)	(12,000)	
Tooling (P-64-6)	(2,750)	(2,750)	
Fab. Equip. (P-64-4)	(8,300)	(8,300)	
Dev. Prior (P-64-2)	(1,800)	(1,800)	
Net Fee Base	<u>\$2,494,610</u>	<u>\$2,482,760</u>	<u>\$(11,850)</u>
Fee @ 6%	<u>\$ 149,677</u>	<u>\$ 148,966</u>	<u>\$(711)</u>

We have reviewed overhead to direct labor ratios, unit costs and personnel and find no significant variations from the proposal authorized on June 26, 1964.

Total estimated costs changes are as follows. The variations are due to underrun in June and July and to the changes in scope outlined above. Actual costs are included for the period October 1, 1963 to July 31, 1964 and estimates from P-64-7 for August and September 1964.

AUG 27 1964

<u>Activity</u>	<u>P-64-6</u>	<u>P-64-7</u>	<u>Change</u>
Mark V-E	\$1,383,007	\$1,355,095	\$(27,912)
Mark V-B - Regular	977,326	936,810	(40,516)
Mark V-B - Long	67,872	65,913	(1,959)
Development	110,567	110,567	-0-
Thorium	62,752	93,106	30,354
Tooling	674	674	-0-
Fabricated Equipment	86,878	82,056	(4,822)
Purchased Equipment	63,700	60,800	(2,900)
 Total	 <u>\$2,752,776</u>	 <u>\$2,705,021</u>	 <u>\$(47,755)</u>

(C) Conclusion

Based on actual production quantities through June, 1964, it would appear that Sylcor will deliver the contracted quantities of slugs in the contract period.

We recommend that the proposal (P-64-7) be accepted as submitted.

(D) Contract Finance Information

<u>Cost and Fee by Activity</u>	<u>Cost</u>	<u>Fee</u>	<u>Total</u>
Mark V-E	\$1,273,819	\$ 81,276 ^{a/}	\$1,355,095
Mark V-B - Regular	883,500	53,310	936,810
Mark V-B - Long	61,778	4,135	65,913
Thorium	88,243	4,863	93,106
Development	105,224	5,343	110,567
Tooling	635	39	674
Fabricated Equipment	82,056	^{a/}	82,056
Purchased Equipment	60,800	-0-	60,800
 Total	 <u>\$2,556,055</u>	 <u>\$148,966</u>	 <u>\$2,705,021</u>

^{a/} Includes \$6,944 fee on Fabricated Equipment.

AUG 27 1964

Recap of Revised Costs and Commission Obligation:

Summary of Estimated Costs and Fixed Fee

	<u>Mod. 37</u>	<u>Increase (Decrease)</u>	<u>Mod. 38</u>
Operating Cost	\$29,109,973	\$(39,322)	\$29,070,651
Plant and Capital Equipment (Beginning 7/1/63)	208,567 216,789	(7,722)	208,567
Fixed Fee	1,638,292 1,637,799	(711)	1,637,581
Total Est. Cost and Fixed Fee	\$30,964,754 30,964,554	<u>\$(47,755)</u>	<u>\$30,916,799</u>

Commission Obligations

Operating Cost	\$29,070,651
Plant and Capital Equipment	216,289 208,567
Fixed Fee	<u>1,637,581</u>
Total Commission Obligation	<u>\$30,924,521</u> <u>30,916,799</u>

Contract Articles:

1. Paragraph 1, Estimate of Cost and Fixed Fee, of Article IV - Estimates of Costs, Obligation of Funds and Fixed Fee, is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under the Contract is \$29,279,218, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in Paragraph 2, of Article V of the Contract is \$1,637,581. The estimated cost of the work as described in Paragraph 1 of the Article entitled Scope of Work for the period October 1, 1963, to September 30, 1964, is \$2,556,055, exclusive of the Contractor's fixed fee of \$148,966."

2,556,055
148,966
2,705,021

2. In Paragraph 2, Obligation of Funds, of Article IV - Estimates of Cost, Obligation of Funds, and Fixed Fee, the figure "\$30,934,554" is deleted and the figure "\$30,924,521" is substituted therefor.
916,799

AUG 27 1964

3. Sub-paragraph (e) of Paragraph 2, Fixed Fee, of Article V - Allowable Cost and Fixed Fee, is revised to read as follows:

"(e) The fixed fee applicable to the work performed during the period October 1, 1963, to September 30, 1964, is \$148,966."

4. Sub-paragraph (e) of Paragraph 2, Payment of Fixed Fee, of Article VI - Payments, is revised to read as follows:

"(e) For the period October 1, 1963, through September 30, 1964, ninety percent (90%) of the fixed fee of \$148,966 shall become due and payable in monthly installments as follows:

October 1963 - December 1963	\$13,883
January 1964 - May 1964	9,963
June 1964 - July 1964	10,811
August 1964 - September 1964	10,492

cc: J. J. Wise, Manager's Office
R. A. Messick, B&F Div.
N. J. Donahue, T&P

~~SECRET~~

UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

TO : J. S. Hopkins, Director
Administrative Division

FROM : *A. Y. Morgan*
A. Y. Morgan, Director
Budget and Finance Division

SUBJECT: REVIEW SYLCOR PROPOSAL P-65-1

FB:MER:jl

DATE: SEP 24 1964

Document No. SR-FB-1078

This document consists of 2 pages,

No. 1 of 2 copies, Series A

We have reviewed Sylcor's Proposal P-65-1, DCF #2608-H, dated September 10, 1964 for the period October 1, 1964 to September 30, 1965, and submit the following comments, cost analysis, conclusion and contract finance information.

Comments

This Proposal was discussed with Sylcor representatives at NYOO on September 18, 1964 with the following in attendance:

SROO

J. J. Wise
* N. J. Donahue
Robert McFeely
Martin Robinson

Sylcor

Boyd Metz
Bill Mandaro
Milton Boll
Bill Crowley
A. L. Gannon

The financial points discussed were:

a) Budget

The Sylcor Proposal as submitted is about \$281,000 more than is included for Sylcor in the SROO Budget. Sylcor was informed that the budget for FY 1965 is extremely tight and that measures should be continued to keep costs as low as possible. Jack Donahue informed us that Sylcor production would probably be cut back and that their level in FY 1965 would probably not exceed the financial plan.

b) Thorium

Sylcor had included \$6,000 for thorium costs in October. We had understood that the thorium program was to have been completed by the end of September 1964. Sylcor informed us that the costs included for October were for clean-up of the equipment and shipment of scrap and that although the canning program for thorium had slipped due to difficulties in metal quality that the above \$6,000 was not carry-over funding.

DEPARTMENT OF ENERGY SAVANNAH RIVER RECLASSIFICATION REVIEW

Determination (Circle Number)

1. Classification Unchanged

2. Classification changed to:

3. Classification Canceled

4. Other: CG-NRP-2 9-00

1st Review Date 4/3/03

Authority: EJ ADX ADD

Name: G.B. Shuck

2nd Review Date 4/3/03

Authority: ADD

Name: Deven P. Anderson



GROUP 1

EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

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~~RESTRICTED DATA~~

U.S. Savings Bonds Regularly on the Payroll Savings Plan

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(c) Overhead Ratios

The ratio of overhead to direct labor continues to rise. The ratio in the contract period ending September 30, 1964 was 117%; the ratio for the period 10/1/64 to 9/30/65 was 146%.

Sylcor informed us that they realized the ratios were increasing but that certain items of overhead such as occupancy and security were relatively fixed and couldn't be reduced in relation to direct labor, but that continuing review was made to assure that overhead items related to direct labor were held to a minimum.

(d) Fee on Fabricated Equipment

In past periods we have had difficulties in relating variation in fabricated equipment to cost underrun or to scope changes. Consequently, in this proposal Sylcor was asked to only include items of fabricated equipment that could be specifically identified. Then if variations occur they can be identified and it was agreed between SRO and Sylcor that the fee would be adjusted accordingly. Sylcor will provide SRO copies of equipment work orders for information only.

(e) Cost Reduction

It was re-emphasized to Sylcor that close attention should be given to cost reduction, and that it is highly important to be realistic in reporting cost reductions since they are being measured against the budget.

Cost Analysis

The estimated cost by program for the ensuing period as compared to the preceding period is as follows:

<u>Activity</u>	<u>P-64-7</u> <u>10-1-63</u> <u>9-30-64</u>	<u>P-65-1</u> <u>10-1-64</u> <u>9-30-65</u>	<u>Variation</u>
Mark V-E	\$1,355,095 ^{a/}	\$ 912,479 ^{a/}	
Mark V-B Reg.	936,810	540,695	
Mark V-B Long	65,913	106,116	
Thorium	93,106	6,105	
Development	110,567	-0-	
Tooling	674	-0-	
Fabricated Equipment	82,056	49,600	
Purchased Equipment	60,800	40,400	
Total Costs	<u>\$2,705,021</u>	<u>\$1,655,395</u>	<u>\$(1,049,626)</u>

a/ Includes fee on fabricated equipment of \$6,944 and \$2,977, respectively.

~~SECRET~~

J. S. Hopkins

-3-

SEP 28 1964

<u>Production (Lbs.)</u>	<u>P-64-7</u>	<u>P-65-1</u>	<u>Variation</u>
Mark V-E	\$ 682,000	\$ 552,000	\$ (130,000)
Mark V-B Reg.	723,000	456,000	(267,000)
Unit Cost V-E	\$1.99	\$1.65	\$(.34)
Unit Cost V-B	1.29	1.19	(.10)

As indicated above, unit costs reflect a desirable decrease even though production and total costs show also a significant decrease. In discussions with Sylcor it was determined that these improvements are due to cost reduction implementation.

Fee Base

The comparison between the fee base for the two periods is as follows:

Direct Labor	\$ 764,590	\$ 442,530
Direct Material	674,680	304,000
Overhead	892,410	644,720
G & A	175,930	132,330
Adjustments	<u>(24,850)</u>	<u>-0-</u>

Subtotal	<u>\$2,482,760</u>	<u>\$1,523,580</u>
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Fee @ 6%	148,966	91,415
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Ratio Overhead to
Direct Labor

Overhead	892,410	644,720
Direct Labor	<u>764,590</u>	<u>442,530</u>
Ratio	<u>117%</u>	<u>146%</u>

The actual overhead direct labor ratio was about 127% in the contract year ending 9/30/64.

G & A Ratios

Cost Excl. G & A	2,331,680	1,391,250
G & A	<u>175,930</u>	<u>132,330</u>
Ratio	7.5%	9.5%

As with overhead it is assumed that certain G & A items (particularly Division G & A) are relatively fixed and ratios will increase as scope of total costs decline.

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USDOE 017809

~~SECRET~~

J. S. Hopkins

-4-

SEP 24 1964

<u>Personnel Man-Months</u>	<u>P-64-7</u>	<u>P-65-1</u>
Mark V-E	801	552
Mark V-B	610	407
Thorium	72	5
Development	73	-0-
Fabricated Equipment Expense	<u>78</u>	<u>41</u>
	<u>214</u>	<u>156</u>
Total	<u>1,848</u>	<u>1,161</u>
Year Ending 9/30/64	113	-
9/30/65	-	89

The reduction in personnel is due to a reduction in production.

Conclusion

Accept the proposal as submitted. This was agreed at the meeting at NYO on September 18, 1964.

Contract Finance Information

	<u>Cost</u>	<u>Fee</u>	<u>Total</u>
Mark V-E	\$ 858,020	\$ 54,459 ^{a/}	\$ 912,479
Mark V-B Reg.	510,090	30,605	540,695
Mark V-B Long	100,110	6,006	106,116
Thorium	5,760	345	6,105
Fabricated Equipment	49,600	a/	49,600
Purchased Equipment	<u>40,400</u>	<u>-0-</u>	<u>40,400</u>
Total	<u>\$1,563,980</u>	<u>\$ 91,415</u>	<u>\$1,655,395</u>

a/ Includes fee on fabricated equipment of \$2,977.

~~SECRET~~

USDOE 017810

~~SECRET~~

J. S. Hopkins

-5-

SEP 24 1964

Obligations under the contract should be increased as follows:

	<u>Operating Cost</u>	<u>Equipment</u>	<u>Total</u>
Operating Cost & Fee 10/1/64 - 9/30/65	\$1,232,019		
Operating Cost & Fee 7/1/64 - 9/30/65	<u>333,376</u>		
Total	<u>\$1,565,395</u>	<u>\$ 90,000</u>	<u>\$1,655,395</u>
Less Underrun in FY 1964 and Prior Yr. Projects (\$15,000 less \$7,722 de- obligated by Mod. No. 38)	<u>-</u>	<u>(7,278)</u>	<u>(7,278)</u>
Total	<u>\$1,565,395</u>	<u>\$ 82,722^{a/}</u>	<u>\$1,648,117</u>
First Qtr. FY 1966 Equip. Auths. not to be Obligated in FY 1965	<u>-</u>	<u>(15,000)</u>	<u>(15,000)</u>
<u>Other FY 1965 Items</u>			
Stores	(9,825)	-	(9,825)
Working Capital	<u>(24,564)</u>	<u>-</u>	<u>(24,564)</u>
Subtotal	<u>(34,389)</u>	<u>-</u>	<u>(34,389)</u>
Net Increase	<u>\$1,531,006</u>	<u>\$ 67,722</u>	<u>\$1,598,728</u>

^{a/} Includes \$15,000 for first quarter FY 1966 authorizations not to be obligated in FY 1965.

~~SECRET~~

USDOE 017811

Recap of Revised Costs and Commission Obligation:

Summary of Estimated Costs and Fixed Fee

	<u>Mod. 38</u>	<u>Increase (Decrease)</u>	<u>Mod. 39</u>
Operating Cost	\$29,070,651	\$1,439,591	\$30,510,242
Plant and Capital Equipment (Beginning 7/1/63)	208,567	82,722	291,289
Fixed Fee	<u>1,637,581</u>	<u>91,415</u>	<u>1,728,996</u>
Total Est. Cost & Fixed Fee	<u>\$30,916,799</u>	<u>\$1,613,728</u>	<u>\$32,530,527</u>

Commission Obligations

Operating Cost	29,070,651	1,439,591	30,510,242
Plant and Capital Equipment	208,567	67,722	276,289
Fixed Fee	<u>1,637,581</u>	<u>91,415</u>	<u>1,728,996</u>
Total Commission Obligation	<u>\$30,916,799</u>	<u>\$1,598,728</u>	<u>\$32,515,527</u>

Contract Articles:

1. In Paragraph 1., Term, of Article III - TERM, EXPIRATION AND TERMINATION, the date "September 30, 1964," is deleted and the date "September 30, 1965," is substituted therefor.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$30,801,531, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,728,996. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work for the period October 1, 1964, to September 30, 1965, is \$1,563,980, exclusive of the Contractor's fixed fee of \$91,415."
3. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATE OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$30,916,799" is deleted and the figure "\$32,515,527" is substituted therefor.

~~SECRET~~

J. S. Hopkins

-7-

SEP 24 1964

4. The following new subparagraph (f) is added to paragraph 2.,
Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE:

"(f) The fixed fee applicable to work performed during the
period October 1, 1964, to September 30, 1965, is \$91,415."

5. The following new subparagraph (f) is added to paragraph 2.,
Payment of Fixed Fee, of Article VI - PAYMENTS:

"(f) For the period October 1, 1964, through September 30, 1965,
ninety percent (90%) of the fixed fee of \$91,415 shall become
due and payable in monthly installments of \$6,856."

cc: J. J. Wise, Manager's Office, cy. 2A
R. A. Messick, B&F Division, cy. 3A
N. J. Donahue, T&P Division, cy. 4A

~~SECRET~~

USDOE 017813

Roland A. Anderson, Assistant General
Counsel for Patents, Germantown

September 29, 1964

Randall G. Erdley, Chief
Savannah River Patent Group

CONTRACT AT(30-1)-1293 WITH SYLVANIA ELECTRIC PRODUCTS, INC.

CP:AFW:cm

The subject contract has been extended from October 1, 1964 to
September 30, 1965 by a TWX dated September 28, 1964.

Sylvania Electric Products, Inc. has submitted a voucher requesting
payment of a fee retainer for the fiscal year ending June 30, 1964
in the subject contract.

It would be appreciated if you would furnish an interim patent clearance
certificate for the period ending June 30, 1964.

cc: H. S. Potter, NYOO

P.S. TO POTTER: Please advise if we may be of any assistance in
this matter.

OFFICE ▶	<i>Patent B.A.</i>				
SURNAME ▶	<i>R.G. Erdley</i>				
DATE ▶	<i>9/29/64</i>				

A

WSAC

1st Review Date: 4/28/04 Denomination (Article Number)

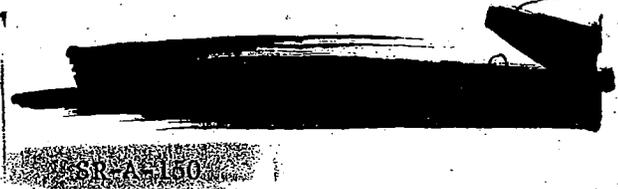
Authority: ADC ADD 1. Classification Unchanged

Name: PL Collins 2. Classification Changed to

2nd Review Date: 4/28/04

Authority: ADD 3. Classification Cancelled

Name: M. M. 4. Other: CG - A.M.P. 2
9/00



SR-A-160

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 REVISED OCTOBER 1, 1964, UNDER
 MODIFICATION NO. 39

As provided for in paragraph 1. of Article I of Modification No. 29 of Contract No. AT(30-1)-1293, this Appendix "B" describes the scope of work to be performed by the Contractor during the period October 1, 1964, through September 30, 1965.

1. PRODUCTION

A. MARK V-B AND MARK V-E (Inner Fuel)

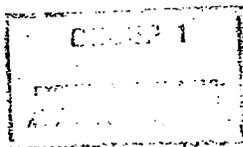
The Contractor shall manufacture and furnish to the Commission Mark V-B and Mark V-E slugs at monthly tonnages as follows:

	Mark V-B (Tons) Integral Rib	Mark V-E (Tons) Integral Rib
October 1964	21	26
November 1964	18	22
December 1964	19	23
January 1965	19	23
February 1965	19	23
March 1965	22	27
April 1965	20	24
May 1965	19	23
June 1965	21	25
July 1965	12	13
August 1965	19	24
September 1965	19	23

B. EXTENDED LENGTH MARK V-B SLUGS

Undertake the canning of 560 sets of extended length Mark V-B slugs for delivery in accordance with the following schedule:

- 75 sets by October 19, 1964
- 175 sets by December 14, 1964
- 310 sets by February 28, 1965



Copy 9A10A Destroyed 7/27/06



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U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 38
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Amend scope of work and other provisions of the
Contract

EFFECTIVE DATE : August 1, 1964

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 37</u>	<u>Increase (Decrease)</u>	<u>Modification No. 38</u>
Operating Cost	\$29,109,973	\$(39,322)	\$29,070,651
Plant and Capital Equipment (Beginning July 1, 1963)	216,289	(7,722)	208,567
Fixed Fee (Operations)	<u>1,638,292</u>	<u>(711)</u>	<u>1,637,581</u>
Total Estimated Cost and Fixed Fee	<u>\$30,964,554</u>	<u>\$(47,755)</u>	<u>\$30,916,799</u>
Commission Obligation			<u>\$30,916,799</u>

~~SECRET~~

document transmitted herewith contains

~~RESTRICTED DATA~~

When separated from enclosures handle
this document as UNCLASSIFIED

CONFORMED COPY

USDOE 017332

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 38
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 14th day of October, 1964, effective August 1, 1964, unless otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties do mutually agree as follows:

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATIONS OF FUNDS AND FIXED FEE, is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,279,218, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2. of Article V of the Contract is \$1,637,581. The estimated cost of the work as described in paragraph 1. of the Article entitled Scope of Work for the period October 1, 1963, to September 30, 1964, is \$2,556,055, exclusive of the Contractor's fixed fee of \$148,966."

2. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$30,934,554" is deleted and the figure "\$30,916,799" is substituted therefor.

3. Subparagraph (e) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read as follows:

"(e) The fixed fee applicable to the work performed during the period October 1, 1963, to September 30, 1964, is \$148,966."

USDOE 017333

Modification No. 38
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. Subparagraph (e) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read as follows:

"(e) For the period October 1, 1963, through September 30, 1964, ninety percent (90%) of the fixed fee of \$148,996 shall become due and payable in monthly installments as follows:

October 1963 - December 1963	\$13,883
January 1964 - May 1964	9,963
June 1964 - July 1964	10,811
August 1964 - September 1964	10,492

5. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, revised August 1, 1964, under Modification No. 38, is attached hereto and made a part hereof.
6. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: /s/ R. C. Blair

TITLE: Manager, SROO

WITNESSES:

/s/ Grace Golden

Hicksville, L.I., New York
(Address)

/s/ Mary G. Steglic

Hicksville, L. I., New York
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

BY: /s/ D. B. Metz

TITLE: Manufacturing Manager
Sylcor Division

A

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 38
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT TO: Amend scope of work and other provisions of the
Contract

EFFECTIVE DATE : August 1, 1964

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 37</u>	<u>Increase (Decrease)</u>	<u>Modification No. 38</u>
Operating Cost	\$29,109,973	\$(39,322)	\$29,070,651
Plant and Capital Equipment (Beginning July 1, 1963)	216,289	(7,722)	208,567
Fixed Fee (Operations)	<u>1,638,292</u>	<u>(711)</u>	<u>1,637,581</u>
Total Estimated Cost and Fixed Fee	<u>\$30,964,554</u>	<u>\$(47,755)</u>	<u>\$30,916,799</u>
Commission Obligation			<u>\$30,916,799</u>

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office.

Modification No. 38
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 14th day of October, 1964, effective August 1, 1964, unless otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties do mutually agree as follows:

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATIONS OF FUNDS AND FIXED FEE, is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$29,279,218, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2. of Article V of the Contract is \$1,637,581. The estimated cost of the work as described in paragraph 1. of the Article entitled Scope of Work for the period October 1, 1963, to September 30, 1964, is \$2,556,055, exclusive of the Contractor's fixed fee of \$148,966."

2. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$30,934,554" is deleted and the figure "\$30,916,799" is substituted therefor.

3. Subparagraph (e) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read as follows:

"(e) The fixed fee applicable to the work performed during the period October 1, 1963, to September 30, 1964, is \$148,966."

Modification No. 38
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

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October 1963 - December 1963	\$13,883
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June 1964 - July 1964	10,811
August 1964 - September 1964	10,492

5. Appendix "B" Modification No. 29, Contract AT(30-1)-1293, revised August 1, 1964, under Modification No. 38, is attached hereto and made a part hereof.

6. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: [Signature]
F. C. Elzy, Manager

TITLE: Savannah River Operations Office

WITNESSES:

[Signature]
[Signature]
(Address)

[Signature]
[Signature]
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

BY: [Signature]
D. B. Metz

TITLE: Manufacturing Manager
Sylcor Div.

Modification No. 38
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

I, J. M. TOOTER, certify that I am ASSI. SECRETARY
of Sylvania Electric Products Inc., named above; that D. B. METZ
who signed this Agreement on behalf of said corporation, was then MFG. MGR
Bycon Div. of said corporation, and that this Agreement was
duly signed for and in behalf of said corporation by authority of its governing
body and within the scope of its corporate powers.

Witness my hand and seal of said corporation this 2nd day of OCTOBER,
1964.

(CORPORATE SEAL)

J. M. Tooter

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 39
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT: Amend scope of work and other provisions of the
Contract

EFFECTIVE DATE : October 1, 1964

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION:

	<u>Modification No. 38</u>	<u>Increase (Decrease)</u>	<u>Modification No. 39</u>
Operating Cost	\$29,070,651	\$1,439,591	\$30,510,242
Plant and Capital Equipment (Beginning July 1, 1963)	208,567	82,722	291,289 a/
Fixed Fee (Operations)	<u>1,637,581</u>	<u>91,415</u>	<u>1,728,996</u>
Total Estimated Cost and Fixed Fee	<u>\$30,916,799</u>	<u>\$1,613,728</u>	<u>\$32,530,527</u>
Commission Obligation			<u>\$32,515,527</u>

a/ Includes \$15,000 for first quarter FY 1966 authorizations not to be obligated in FY. 1965.

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CONFORMED COPY

When so indicated, this document is UNCLASSIFIED

USDOE 017339

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 39
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 24th day of November, 1964, effective October 1, 1964, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. In paragraph 1., Term, of Article III - TERM, EXPIRATION AND TERMINATION, the date "September 30, 1964," is deleted and the date "September 30, 1965," is substituted therefor.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$30,801,531, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,728,996. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work, for the period October 1, 1964, to September 30, 1965, is \$1,563,980, exclusive of the Contractor's fixed fee of \$91,415."
3. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATE OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$30,916,799" is deleted and the figure "\$32,515,527" is substituted therefor.

Modification No. 39
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. The following new subparagraph (f) is added to paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE:

"(f) The fixed fee applicable to work performed during the period October 1, 1964, to September 30, 1965, is \$91,415."

5. The following new subparagraph (f) is added to paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS:

"(f) For the period October 1, 1964, through September 30, 1965, ninety percent (90%) of the fixed fee of \$91,415 shall become due and payable in monthly installments of \$6,856."

6. Appendix "B" Modification No. 29, as amended, is further amended as of October 1, 1964, and is attached hereto and made a part hereof.

7. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: /s/ R. C. Blair

TITLE: Manager, SROO

WITNESSES:

/s/ Grace Golden

Hicksville, L. I., N. Y.

(Address)

/s/ Mary G. Steglic

Hicksville, N. Y.

(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

BY: /s/ W. R. Mandaro

TITLE: Manufacturing Manager

Modification No. 39
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

I, J. M. Toohar, certify that I am Assistant Secretary
of Sylvania Electric Products Inc., named above; that W. R. Mandaro
who signed this Agreement on behalf of said corporation, was then Mfg. Mgr.
Sylcor Division of said corporation, and that this Agreement was duly
signed for and in behalf of said corporation by authority of its governing body
and within the scope of its corporate powers.

Witness my hand and seal of said corporation this 9th day of November
1964.

/s/ J. M. Toohar

(CORPORATE SEAL)

~~SECRET~~

UNCLASSIFIED

Roland A. Anderson, Assistant General
Counsel for Patents, Germantown

December 3, 1964

Randall G. Erdley, Chief
Savannah River Patent Group

CONTRACT AT(30-1)-1293 SYLVANIA ELECTRIC PRODUCTS, INC.
MOD. NO. 39 (DATED OCTOBER 1, 1964)

Document No. SR-C-235

CP:RGE:cm

This document consists of 1 pages
No. 3 of 3 copies. Series A

The subject contract has been extended to September 30, 1965 to provide for additional production of Mark V-B and Mark V-E fuel slugs.

Estimated cost..... \$1,563,980

Fixed fee..... 91,415

New obligation of funds.....\$32,515,527.

- Cy. 1 - R. A. Anderson
- 2 - Official File
- 3 - Reading file

DEPARTMENT OF ENERGY SAVANNAH RIVER PATENT GROUP - UNCLASSIFIED	
1st Review Date: 3-28-63	Classification (Circle Number)
Authority: EAD, LTADD	1. Classification Unchanged
Name: J. B. Slack	2. Classification changed to:
2nd Review Date: 3-28-63	3. Classification Cancelled
Authority: ADD	4. Other: CG-NMP-2 9/60
Name: R. A. Anderson	

~~RESTRICTED DATA~~

~~This document contains Restricted Data as defined in the Atomic Energy Act of 1954 and is to be controlled in the same manner as the Restricted Data in the Atomic Energy Act of 1954. No unauthorized disclosure is permitted.~~

UNCLASSIFIED

OFFICE ▶	Patent B.a.					
SURNAME ▶	RGE					
DATE ▶	12-3-64					

~~SECRET~~

A

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 39
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT: Amend scope of work and other provisions of the
Contract

EFFECTIVE DATE : October 1, 1964

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 38</u>	<u>Increase (Decrease)</u>	<u>Modification No. 39</u>
Operating Cost	\$29,070,651	\$1,439,591	\$30,510,242
Plant and Capital Equipment (Beginning July 1, 1963)	208,567	82,722	291,289 a/
Fixed Fee (Operations)	<u>1,637,581</u>	<u>91,415</u>	<u>1,728,996</u>
Total Estimated Cost and Fixed Fee	<u>\$30,916,799</u>	<u>\$1,613,728</u>	<u>\$32,530,527</u>
Commission Obligation			<u>\$32,515,527</u>

a/ Includes \$15,000 for first quarter FY 1966 authorizations not to be obligated in FY 1965.

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 39
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

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WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. In paragraph 1., Term, of Article III - TERM, EXPIRATION AND TERMINATION, the date "September 30, 1964," is deleted and the date "September 30, 1965," is substituted therefor.
2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:
 - "1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$30,801,531, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,728,996. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work, for the period October 1, 1964, to September 30, 1965, is \$1,563,980, exclusive of the Contractor's fixed fee of \$91,415."
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Modification No. 39
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

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"(f) The fixed fee applicable to work performed during the period October 1, 1964, to September 30, 1965, is \$91,415."

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"(f) For the period October 1, 1964, through September 30, 1965, ninety percent (90%) of the fixed fee of \$91,415 shall become due and payable in monthly installments of \$6,856."

6. Appendix "B" Modification No. 29, as amended, is further amended as of October 1, 1964, and is attached hereto and made a part hereof.

7. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: _____

TITLE: _____

WITNESSES:

Grace Golden
Hecksweil R J ny
(Address)

Mary R. Stylic
Hecksweil R J
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

BY: _____

W. R. Mandaro
TITLE: Manufacturing Manager
Sylcor Division

Modification No. 39
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

I, J. M. TOCHER, certify that I am ASST. SECRETARY
of Sylvania Electric Products Inc., named above; that W. R. MANDARO
who signed this Agreement on behalf of said corporation, was then MFG MGR
SYLVAR DIVISION of said corporation, and that this Agreement was duly
signed for and in behalf of said corporation by authority of its governing body
and within the scope of its corporate powers.

Witness my hand and seal of said corporation this 9th day of NOVEMBER
1964.

J. M. Tocher

(CORPORATE SEAL)

A

SYLVANIA ELECTRIC PRODUCTS INC.SYLOR DIVISION

Attachment "A" 10

HICKSVILLE, NEW YORK

Effective JAN. 1, 1965

Use of Government Owned Facilities
In Performance of Private Commercial Work

- I. For purposes of this agreement all private commercial work will be referred to as "outside work" and will be considered work for the Sylor Commercial Plant at Hicksville. All outside work to be performed will be requested on the Sylor Work Order Form to be approved by the AEC SROO prior to start of work (or in accordance with agreements to be made with AEC).
- II. The work under Contract AT(30-1)-1293 shall at all times, and without any qualification or limitation whatsoever, have the absolute priority in time, effort, and in all other significant respects over any outside work. This agreement excludes all cost type work performed under an Appendix "C" agreement sponsored by the AEC as provided for in the contract under paragraph 2 of article 1.
- III. The work to be performed under this agreement will exclude the AEC Production, Inspection and Process Control Departments including the area occupied, equipment and personnel of these departments. These departments will hereinafter be referred to as AEC Operations Departments.
- IV. The work to be performed under this agreement will include the Area Occupied, Equipment and Personnel of the following departments hereinafter referred to as Production Support Departments:

<u>Dept. #</u>	<u>Name</u>
21	Chemical Services
23	Engineering Dept.
24	Machining Services
27	Plant Engineering (Drafting & Maint.)
28	Metallography Services

- V. The AEC Plant (Contract 1293) expenses will be credited monthly on a full cost reimbursement basis for all outside work performed by the Production Support Departments for the sum total of the following expenses:

1. Direct Labor

Based on actual time card charges to job numbers assigned to outside work.

continue!

SYLVANIA ELECTRIC PRODUCTS INC.

SYLCOF DIVISION

HICKSVILLE, NEW YORK

Page 2

V. (continued)

2. Overhead

An overhead rate to be applied to direct labor which represents total AEC Plant overhead including all service department prorates and security department expenses.

A provisional rate will be established for interim use on outside work. This provisional rate will be adjusted to actual on a semi-annual basis.

3. Depreciation of AEC Owned Equipment

An overhead rate to be applied to direct labor which represents the depreciation of the equipment included in the production support departments. The amount charged will be calculated using the depreciation rates recorded on AEC records and will include an amount to represent depreciation on fully depreciated items.

A provisional rate will be established for interim use on outside work. This provisional rate will be adjusted to actual on a semi-annual basis.

The depreciation overhead rate will be arrived at by dividing the total direct labor of the Production Support Departments into the total depreciation dollars of the equipment in these departments plus an allocation of the Administration Department equipment depreciation. Due to the specialized nature of the plating equipment a separate rate will be established for outside plating work in the event such work becomes available.

4. Stores Materials

Any common use materials withdrawn from the stockroom for use on outside work will be charged to the job on the basis of a properly approved Stores Acquisition charging the appropriate outside work order.

5. Charge For AEC Administration

A factor to be agreed upon by the parties will be applied to the sum of items 1 through 4 above. This amount will be credited to the AEC contract and will represent a charge for AEC administration of the procedures of this agreement.

continued -

SYLVANIA ELECTRIC PRODUCTS INC.

SYLCO DIVISION

HICKSVILLE, NEW YORK

Page 3

- VI. The Work Order form will show the job number, customer, estimated cost in detail and a complete description of the work to be done and the facilities to be used. The period of performance will also be indicated on the work order. Work will not be contracted for in excess of a six (6) month period.
- VII. An up-to-date listing of all equipment included in the Production Support Departments will be maintained showing tag number, date acquired, first cost, annual and monthly depreciation amounts. This listing will substantiate the monthly depreciation amounts to be used in developing the Depreciation Overhead Rate described in Article V Paragraph 3.

~~SECRET~~

UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

TO : J. S. Hopkins, Director
Administrative Division

FROM : *A. Y. Morgan*
A. Y. Morgan, Director
Budget and Finance Division

DATE: JAN 20 1965

SUBJECT: REVIEW SYLOR PROPOSAL P-65-2 (REVISED)

Document No. SR-FB-1109

FB:MER:ac

This document consists of 4 pages,

No. 1 of 7 copies. Series A

We have reviewed Sylcor's proposal P-65-2 of December 11, 1964 (DCF 2646-H) for the period October 1, 1964 to September 30, 1965 and submit the following for your consideration in preparation of a modification to the contract.

A. Scope Changes

- (1) Mark V-B reduction - 164 tons
- (2) Mark V-E reduction - 28 tons
- (3) Equipment - \$30,000 cost reduction

DEPARTMENT OF ENERGY-SAVANNAH RIVER DECLASSIFICATION REVIEW	
1st Review Date <u>4/3/03</u>	Determination (Circle Number)
Authority: <u>SIADIC DADD</u>	1. Classification Unchanged
Name: <u>G.B. Slack</u>	2. Classification changed to:
2nd Review Date <u>11/10/03</u>	
Authority: <u>ADD</u>	3. Classification Canceled
Name: <u>William J. Rendon</u>	4. Other: <u>CG-NMP7 9-00</u>

The production of Mark V-B is discontinued after January 1965. For the period February 1965 through September 30, 1965, the only production by Sylcor will be Mark V-E at the rate of about 20 tons per month.

The reduction in scope as outlined above results in a net reduction in costs subject to fee for the period of \$281,900 and a fixed fee reduction of \$16,914 as follows:

	Estimates P-65-1		Estimates P-65-2		Change	
	Cost	Fee	Cost	Fee	Cost	Fee
Mark V-E	\$ 858,020	\$51,482	\$ 922,930	\$55,376	\$ 64,910	\$ 3,894
Mark V-B Reg.	510,090	30,605	169,380	10,163	(340,710)	(20,442)
Mark V-B 12"	100,110	6,006	97,660	5,860	(2,450)	(146)
Thorium	5,760	345	5,760	345	-0-	-0-
Fab. Equipment	49,600	2,977	45,950	2,757	(3,650)	(220)
Total	<u>\$1,523,580</u>	<u>\$91,415</u>	<u>\$1,241,680</u>	<u>\$74,501</u>	<u>\$(281,900)</u>	<u>\$(16,914)</u>

Although there is a net reduction in Mark V-E production, total costs increase because (a) V-E must assume essentially all indirect costs after February 1965, and (b) to maintain continuity in the canning process requires a certain minimum level of personnel. This involves the absorption of about seven direct people in the V-E canning costs after other V-B work is discontinued.



GROUP 1
EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

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~~RESTRICTED DATA~~

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Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

~~SECRET~~

J. S. Hopkins

- 2 -

JAN 20 1965

Personnel	P-65-1	P-65-2	Change
<u>Man-Months</u>			
V-E	552	593	41
V-B Reg.	341	111	(230)
V-B 12 ^u	66	55	(11)
Thorium	5	17	12
Equipment	41	46	5
Expense	156	122	(34)
Total	<u>1,161</u>	<u>944</u>	<u>(217)</u>
Ending 9/30/65	<u>89</u>	<u>61</u>	<u>(28)</u>

Overhead Direct Labor Totals and Ratios

	P-65-1	P-65-2	Oct.-Nov. Actual
Direct Labor	\$442,530	\$364,228	\$ 87,858
Overhead	644,720	556,178	113,368
Ratio OH to DL	146.0%	153.0%	129.0%

Based on a declining level of operation we consider the overhead total and ratio to be reasonable. The more variable overhead items reflect appropriate decreases.

Unit Cost	P-65-1	P-65-2
Mark V-B	\$1.19	\$1.35
Mark V-E	1.66	1.98

The unit costs are not considered unreasonable based on the low level of production.

Conclusion

Based on a declining level of production, the estimates are reasonable and we recommend acceptance of the proposal (P-65-2) as submitted.

Contract Finance Information

The revised estimates of cost and fixed fees are as follows. Actual costs are included for October and November.

~~SECRET~~

USDOE 017803

~~SECRET~~

J. S. Hopkins

- 3 -

JAN 20 1965

Activity	P-65-2			P-65-1	Change
	Cost	Fee	Total		
Mark V-E	\$ 922,024	\$58,133a/	\$ 980,157	\$ 912,479	\$ 67,678
Mark V-B Reg.	163,095	10,163	173,258	540,695	(367,437)
Mark V-B 12"	91,113	5,860	96,973	106,116	(9,143)
Thorium	26,808	345	27,153	6,105	21,048b/
Fab. Equipment	50,200	a/	50,200	49,600	600
Purchased Equip.	9,800	-0-	9,800	40,400	(30,600)
Total	<u>\$1,263,040</u>	<u>\$74,501</u>	<u>\$1,337,541</u>	<u>\$1,655,395</u>	<u>\$(317,854)</u>

a/ Includes fee of \$2,757 on fabricated equipment.

b/ A fee was paid on the majority of the thorium work in the contract period ending 9/30/64. The work was delayed because of difficulties beyond the control of Sylcor; consequently, the costs have been incurred in this period for the carryover work. Cost subject to fee is \$5,760.

Obligations

The obligation under the contract is decreased \$(312,854) as follows:

Mark V-B Reg.	\$ (367,437)
Mark V-B 12"	(9,143)
Mark V-E	67,678
Thorium	21,048
Total Operations	<u>\$(287,854)</u>
Equipment	\$ (25,000)
Total	<u>\$(312,854)</u>

Recap of Costs, Fixed Fee and Obligations

	Mod. 39	Increase (Decrease)	Mod. 40
Operating Costs	\$30,510,242	\$(270,940)	\$30,239,302
Plant and Capital Equipment (Beginning July 1, 1963)	291,289	(30,000)	261,289a/
Fixed Fee (Operations)	1,728,996	(16,914)	1,712,082
Total Estimated Cost	<u>\$32,530,527</u>	<u>\$(317,854)</u>	<u>\$32,212,673a/</u>
Commission Obligation	\$32,515,527	\$(312,854)	\$32,202,673
Operation	-	(287,854)	-
Equipment	-	(25,000)	-

a/ Includes \$10,000 first quarter FY 1966 equipment requirements that are not being obligated.

USDOE 017804

~~SECRET~~

J. S. Hopkins

- 4 -

JAN 20 1965

Contract Article Changes

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$30,500,591, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,712,082. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work for the period October 1, 1964, to September 30, 1965, is \$1,263,040, exclusive of the Contractor's fixed fee of \$74,501."

2. In paragraph 2., Obligation of Funds of Article IV - ESTIMATE OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$32,515,527" is deleted and the figure "\$32,202,673" is substituted therefor.

3. Subparagraph (f) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE is revised to read:

"(f) The fixed fee applicable to work performed during the period October 1, 1964, to September 30, 1965, is \$74,501."

4. Subparagraph (f) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS is revised to read:

"(f) For the period October 1, 1964, through September 30, 1965, ninety percent (90%) of the fixed fee of \$74,501 shall become due and payable in monthly installments as follows:

October-November 1964	\$6,956
December, 1964 - September, 1965	5,334

cc: J. J. Wise, Manager's Ofc., cy. 2A
R. A. Messick, B&F, cy. 3A
N. J. Donahue, T&P, cy. 4A

~~SECRET~~

USDOE 017805

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 40
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT: Amend scope of work and other provisions of
the Contract.

EFFECTIVE DATE : January 1, 1965

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 39</u>	<u>Increase (Decrease)</u>	<u>Modification No. 40</u>
Operating Cost	\$30,510,242	\$(270,940)	\$30,239,302
Plant and Capital Equipment (Beginning July 1, 1963)	291,289	(30,000)	261,289 a/
Fixed Fee (Operations)	<u>1,728,996</u>	<u>(16,914)</u>	<u>1,712,082</u>
Total Estimated Cost	<u>\$32,530,527</u>	<u>\$(317,854)</u>	<u>\$32,212,673 a/</u>
Commission Obligation	\$32,515,527	\$(312,854)	\$32,202,673
Operation	-	(287,854)	-
Equipment	-	(25,000)	-

a/ Includes \$10,000 first quarter FY 1966 equipment requirements that are
not being obligated.

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this document as UNCLASSIFIED

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USDOE 017344

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 40
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 26th day of February, 1965, effective January 1, 1965, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. In Article I - SCOPE OF WORK, paragraph 3. is renumbered paragraph 4., and the following new paragraph 3. is added:
 - "3. Notwithstanding any other provisions of this Article and/or Contract, the Contractor may utilize in Site "A" the area occupied, equipment and personnel of Department No. 21 - Chemical Services, Department No. 23 - Engineering Department, Department No. 24 - Machine Services, Department No. 27 - Plant Engineering (Drafting and Maintenance), and Department No. 29 - Metallography Services, to perform non-nuclear services or work for private commercial interest under the terms and conditions set forth in the letter dated October 23, 1964, from R. C. Blair to W. R. Mandaro, Manufacturing Manager, Sylcor, as accepted and implemented by W. R. Mandaro's letter and attachment thereto dated December 4, 1964, addressed to R. C. Blair, which letters and attachment are incorporated herein by reference, and upon the further condition that the Contractor does hereby release the Government of all responsibility with respect to such work and agrees that it shall indemnify and hold harmless the Government and the Commission from liability of any type arising out of or in the course of the performance of any such work. The conditions set forth in the letters aforesaid may be modified from time to time, in writing, by mutual agreement of the parties, without the necessity of formally amending the Contract."

USDOE 017345

Modification No. 40
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

2. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$30,500,591, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,712,082. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work for the period October 1, 1964, to September 30, 1965, is \$1,263,040, exclusive of the Contractor's fixed fee of \$74,501."

3. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATE OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$32,515,527" is deleted and the figure "\$32,202,673" is substituted therefor.
4. Subparagraph (f) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read:

"(f) The fixed fee applicable to work performed during the period October 1, 1964, to September 30, 1965, is \$74,501."

5. Subparagraph (f) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read:

"(f) For the period October 1, 1964, through September 30, 1965, ninety percent (90%) of the fixed fee of \$74,501 shall become due and payable in monthly installments as follows:

October-November 1964	\$6,856
December 1964 - September 1965	5,334

6. Appendix "B" Modification No. 29, as amended, is further amended as of January 1, 1965, and is attached hereto and made a part hereof.
7. All other terms and conditions of the Contract remain unchanged.

Modification No. 40
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: /s/ R. C. Blair

TITLE: Manager, SROO

WITNESSES:

/s/ Grace Golden

Hicksville, N. Y.
(Address)

/s/ Mary G. Steglic

Hicksville, N. Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS, INC.

BY: /s/ W. R. Mandaro

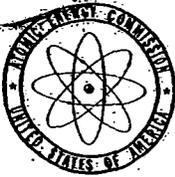
TITLE: Manufacturing Manager
Sylcor Division

I, J. M. Toohar, certify that I am Asst. Secretary of Sylvania Electric Products Inc., named above; that W. R. Mandaro who signed this Agreement on behalf of said corporation, was then Mfg. Mgr. - Sylcor Division of said corporation, and that this Agreement was duly signed for and in behalf of said corporation by authority of its governing body and within the scope of its corporate powers.

Witness my hand and seal of said corporation this 15th day of February, 1965.

/s/ J. M. Toohar

(CORPORATE SEAL)



UNITED STATES
ATOMIC ENERGY COMMISSION
WASHINGTON, D.C. 20545

Chambers
CB-9R

DC FILE

MAY 17 1965

Mr. John T. Conway
Executive Director
Joint Committee on Atomic Energy
Congress of the United States

Dear Mr. Conway:

This letter confirms Mr. Maranowski's telephone call to Captain Bauer of your staff advising that the Atomic Energy Commission has authorized the Savannah River Operations Office to terminate its cost-plus-fixed-fee contract with the Sylcor Division, Sylvania Electric Products, Inc., for fuel fabrication operations at the Sylcor-owned plant at Hicksville, New York.

As you know, for a number of years Sylcor has clad a portion of the fuel elements used in the SRP production reactors, of which the most recent have been the inner elements of the V-B and V-E design. Although the performance of Sylcor has been excellent throughout the period of the contract, the shutdown of one SRP reactor in June 1964, and changing program requirements has and will continue to reduce SRP's requirements for the type of fuel elements for which capability now exists at the Hicksville plant. Consolidation of all fuel element manufacturing at SRP will result in significant cost savings and enable R. I. du Pont de Nemours & Co., the operating contractor, to better utilize manpower during periods of fluctuating requirements for the many alternate fuel types used in the production of the various reactor products assigned to SRP, such as tritium, U-233, curium, etc.

Further, du Pont has developed and converted its uranium canning facilities from the hot-press-bonding process to a hot-die-sizing process which offers additional savings and a flexibility to accommodate changes in fuel element design without major changes in equipment. Sylcor's only existing capability is for the hot-press-bonding process; therefore, it would have been necessary to equip Sylcor for the hot-die-sizing process in order to take full advantage of its potential cost savings and operational flexibility. SRP has adequate hot-die-sizing capacity to handle the entire fuel load of outer and inner elements.

DOE - History Division
Sutland materials - AEC
Accession # 326-76-0006
Job 6540
Box 214 USDOE 017916
F MFT-2 Savannah River
(Outback) January -
~~February~~ December 1965



Mr. John T. Conway

- 2 -

The Special Nuclear Materials Program portion of the AEC's FY 1966 budget estimates assumed that the Sylcor operation would be terminated by the end of FY 1965. Therefore, this action does not affect the FY 1966 budget now before the Congress.

There were 64 Sylcor employees engaged in contract operations as of April 30, 1965, as compared to the peak employment of 300 in mid-1960 and employment of 190 in December 1963, just prior to the announced production cutback which resulted in the shutdown of an SRE reactor in June 1964.

Should you wish further information concerning this matter, please let us know.

Sincerely yours,

R. E. Hollingsworth

General Manager

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MATERIALS

bcc: Chairman (1)
GM (1)
AGMPP (1)
OCR (2)
OGC (1)
SROO (1)

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(Last page rewritten JVVinciguerra:dhk 5/17/65)

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FM USAEC WASHDC

TO USAEC N AUG S C

AEC

BT

UNCLAS TO R C BLAIR FM F P BARANOWSKI PD CONFIRMING MY TELCON CMM
THE COMMISSION HAS APPROVED THE TERMINATION OF THE SYLCOR

CONTRACT PD ACCORDINGLY CMM SYLCOR SHOULD BE NOTIFIED IMMEDIATELY
THAT YOU PLAN TO PHASE OUT ALL WORK UNDER THAT CONTRACT AT THE
EARLIEST POSSIBLE DATE PD JCAE AND LOCAL CONGRESSMAN HAVE BEEN
NOTIFIED PD PARA

PLEASE ADVISE THIS OFFICE ASAP OF HOW YOU PLAN TO PHASE OUT
SYLCOR AND SWITCH THE LOAD TO SRP CMM INCLUDING TIME SCHEDULE
CMM FY 1966 COSTS AT SYLCOR AND PROPOSED DISPOSITION OF AEC-OWNED
EQUIPMENT CMM MATERIALS CMM ETC PD PARA

PAGE 2 RUEHRE 004 UNCLAS

IN THIS CONNECTION CMM IT IS SUGGESTED THAT THE LIST OF AEC-OWNED
EQUIPMENT AT SYLOR BE FURNISHED TO RICHLAND FOR CONSIDERATION
OF POSSIBLE USE IN ITS CANNING OPERATIONS PD END REF PAB CLN PBW AEC 412
BT

NNNN

SYLCOR DIVISION
Sylvania Electric Products Inc.
Hicksville, New York

DATE: May 19, 1965

TO: M. Boll
W. Crowley ✓
J. Grano
H. Grieb
G. LaPier
J. McCarthy
W. Nelson
L. Sama

The close-out of the 1293 contract announced today is, as you realize, a major task. We plan to end the production operations prior to the vacation shutdown. The necessary inventories, the decontamination of equipment and areas, and the dismantling, packaging, and shipment of equipment, will take place between the end of production and September 30. Considerable negotiation with the Commission will be necessary before the details of specifically what equipment will be transferred and to what location it will go are determined.

We will be given an opportunity to procure some of this equipment for our own commercial use. I would request that all department heads provide Bill Crowley with lists of equipment that they have an interest in. We must remember that such items are subject to prior claim by the Commission. We cannot promise that we can obtain all of this equipment. Availability, cost, and long range usefulness to Sylcor must be considered.

General direction of the close-out and liaison between SROO and Sylcor will be handled by myself and Mr. James Hopkins, Director of the Administrative Division, SROO. Milton Boll will be my alternate in this capacity. Department heads

SYLCOR DIVISION
Sylvania Electric Products Inc.
Hicksville, New York

List

-2-

May 19, 1965

will be working with representatives of SROO in their area of responsibility, i.e., financial, legal, safety, security, etc. Ed Meyer will have the over-all responsibility for the coordination and direction of the physical phases of the equipment removal and scrap reprocessing.

As negotiations progress we will keep you informed.



W. R. Mandaro

WRM/gg
cc: All Supervisors

Crowley

SYLCOR DIVISION
Sylvania Electric Products Inc.
Hicksville, New York

May 19, 1965

TO: ALL EMPLOYEES

We have been notified today by the Atomic Energy Commission that our contract with the Savannah River Operations Office will not be renewed when it expires on September 30, 1965.

The reason that our contract will not continue is closely tied to the over-all reduction in the government's atomic weapons programs. You will recall announcements made by President Johnson last year. The point has been reached where the product we manufacture is no longer needed in quantities sufficient enough to maintain our operation.

There will be an orderly phase-out of the program at Hicksville. We must complete our present schedule through July 16, 1965. All production will end as of that date. We plan to have our regularly scheduled vacation shutdown in the last two weeks of July. On return from vacation we will proceed to prepare for the return of all government-owned materials, scrap, and equipment. The close out of this contract of over ten years standing will be no little task both in the physical disposal of the property and the administrative details that are necessary. As we see the task before us we feel certain that all employees currently on the payroll will be needed to complete the job.

This close-out of contract 1293 will not have an immediate effect on our commercial operation. When the phase-out is completed, a limited number of salaried people will be absorbed into the commercial plant and our regular seniority policies will prevail for our hourly employees. We plan no layoffs before mid-September.

We regret very much that the Commission was forced to take this action. All employees of this division have been commended by the Commission for the excellent job that has been done through the years on this contract. We are extremely proud of the reputation we at Sylcor have established with the AEC and with other federal agencies. We intend to carry out the remainder of our contract in

-Cont'd-

**SYLCOR DIVISION
Sylvania Electric Products Inc.
Hicksville, N.Y.**

TO ALL EMPLOYEES

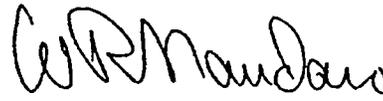
-2-

May 19, 1965

good faith and to the best of our abilities. We are sure that this will stand us in good stead when the opportunity arises for future contract work with any government agency.

I personally want to thank you for the help and cooperation you have given me and the rest of the management at Sylcor through the years. I know that I can count on your continued cooperation. When all of our plans are complete you will be informed and kept informed of as much detail as possible by your supervisors.

WRM/gg


W. R. Mandaro

A

WSRC DECLASSIFICATION REVIEW	
1st Review Date: <u>4/28/04</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>R. Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/04</u>	3. Classification Cancelled
Authority: ADD	4. Other:
Name: <u>A. L. H.</u>	

Box 4
 This document consists of 1 page
 No. of copies, Series A.

SR-A-153

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 REVISED JUNE 1, 1965, UNDER
 MODIFICATION NO. 41

*CG Amd-2
 9/80*

The scope of work to be performed by the Contractor during the period October 1, 1964, through September 30, 1965, as set forth by Modification No. 39 is revised to read as follows:

I. PRODUCTION

A. MARK V-B AND MARK V-E (Inner Fuel)

The Contractor shall manufacture and furnish to be Commission Mark V-B and Mark V-E slugs at monthly tonnages as follows:

	Mark V-B (Tons) <u>Integral Rib</u>	Mark V-E (Tons) <u>Integral Rib</u>
October	21	26
November	18	22
December	15	23
January	10	20
February	-	21
March	-	23
April	-	21
May	-	21
June	-	28
July	-	12
August	-	-
September	-	-

B. EXTENDED LENGTH MARK V-B SLUGS

Undertake the canning of 560 sets of extended length Mark V-B slugs for delivery in accordance with the following schedule:

- 75 sets by October 19, 1964
- 175 sets by December 14, 1964
- 310 sets by February 28, 1965

C. THORIUM

Strip approximately 800 thorium slugs for transshipment to Textron, Inc., by March 31, 1965.

GROUP 1
 EXCLUDED FROM AUTOMATIC
 DOWNGRADING AND DECLASSIFICATION

[Redacted]
 SROO Response to
 FOIA (SR) - 04-028

A

WSRC DECLASSIFICATION REVIEW	
1st Review Date: <u>4/28/04</u>	Determination (Circle Number)
Authority: <input type="checkbox"/> ADC <input checked="" type="checkbox"/> ADD	1. Classification Unchanged
Name: <u>R. Collins</u>	2. Classification Changed To:
2nd Review Date: <u>4/28/04</u>	<u>3. Classification Cancelled</u>
Authority: ADD	4. Other:
Name: <u>A. Light</u>	

box 4
 This document consists of 1 page
 No. of copies, Series A.

SR-A-153

APPENDIX "B" TO MODIFICATION NO. 29
 CONTRACT NO. AT(30-1)-1293
 REVISED JUNE 1, 1965, UNDER
 MODIFICATION NO. 41

*CG AML-2
 9/00*

The scope of work to be performed by the Contractor during the period October 1, 1964, through September 30, 1965, as set forth by Modification No. 39 is revised to read as follows:

I. PRODUCTION

A. MARK V-B AND MARK V-E (Inner Fuel)

The Contractor shall manufacture and furnish to be Commission Mark V-B and Mark V-E slugs at monthly tonnages as follows:

	Mark V-B (Tons) Integral Rib	Mark V-E (Tons) Integral Rib
October	21	26
November	18	22
December	15	23
January	10	20
February	-	21
March	-	23
April	-	21
May	-	21
June	-	28
July	-	12
August	-	-
September	-	-

B. EXTENDED LENGTH MARK V-B SLUGS

Undertake the canning of 560 sets of extended length Mark V-B slugs for delivery in accordance with the following schedule:

- 75 sets by October 19, 1964
- 175 sets by December 14, 1964
- 310 sets by February 28, 1965

C. THORIUM

Strip approximately 800 thorium slugs for transshipment to Textron, Inc., by March 31, 1965.

GROUP 1
 EXCLUDED FROM AUTOMATIC
 DOWNGRADING AND DECLASSIFICATION

[Redacted]
 SROO Response to
 FOIA (SR) - 04-028

SYLVANIA

SYLVANIA ELECTRIC PRODUCTS INC. A Subsidiary of GENERAL TELEPHONE & ELECTRONICS CORPORATION

Wells 1-3500
Twa. No. Hkvl 2358



UNCLASSIFIED

Sylcor Division

Cantiague Road
Hicksville, N. Y.

August 19, 1965

When separated from enclosures handle
this document as UNCLASSIFIED

Mr. R. C. Blair, Manager
U.S. Atomic Energy Commission
Savannah River Operations Office
P.O. Box A
Aiken, S.C.

Dear Mr. Blair:

Attached is our submission (P66-1) of the estimate of costs for the work associated with the termination of Contract AT(30-1)-1293 for the period August and September 1965.

I will be at Savannah River on August 20 to discuss the details of this proposal.

Yours very truly,

SYLCOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.

W. R. Mandaro
Manufacturing Manager

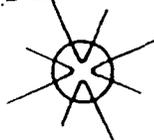
WRM/gg
Att:

Document transmitted herewith contains

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~~CLASSIFIED DATA~~

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NUCLEAR FUEL ELEMENTS

CUSTOM METALLURGY

USDOE 017881

SYLOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.
HICKSVILLE, NEW YORK
CONTRACT AT(30-1)-1293

FUNDING SCHEDULE
P66-1
SCHEDULE 2

UNCLASSIFIED

	<u>B U D G E T</u>		
	<u>AUG</u>	<u>SEPT</u>	
1. NUMBER OF EMPLOYEES			
A. <u>Classification</u>			
Non-exempt	37	32	
Exempt	<u>4</u>	<u>4</u>	
TOTAL	41	36	
B. <u>Program Utilization</u>			
Mark VE	10	--	
AEC Closing Costs	<u>25</u>	<u>30</u>	
TOTAL DIRECT EMPLOYEES	35	30	
TOTAL EXPENSE	<u>6</u>	<u>6</u>	
TOTAL	41	36	
2. <u>COST BREAKDOWN BY ELEMENTS OF COST BY PROGRAMS (00's omitted)</u>			
	<u>MVE</u>	<u>AEC</u>	<u>Total</u>
Direct Labor	<u>5.1</u>	<u>Closing</u> 31.0	<u>36.1</u>
Overhead	8.3	51.0	59.3
Direct Charges	2.0	83.0	85.0
G&A	<u>1.7</u>	<u>16.3</u>	<u>18.0</u>
TOTAL COST	17.1	181.3	198.4

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SYLCOR DIVISON
SYLVANIA ELECTRIC PRODUCTS INC.
HICKSVILLE, NEW YORK
CONTRACT AT(30-1)-1293

FUNDING SCHEDULE
P66-1
SCHEDULE 3

Fee Proposal

P66-1 August & September 1965	\$198,360
Less: Reduction of cost applicable to 1,456 pcs. of MVE not shipped against schedule contained in proposal P65-3	(25,480)
	<hr/>
Total Estimated Cost	\$172,880
6% Fee	\$10,373

Aug, 1956	5187
Sept, 1965	<u>5186</u>
Total	10,373

*Unit cost
30-1-1293*

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USDOE 017884

W.G. CROWLEY

CONTRACT 1293

9/3/55

193 Class Dist - after discussion w/ Tom Daly, Ed Brachocki, P. Carroll 9/2.

Value in Place - value of the improvements in their existing condition. This value, since it bears no relationship to salvage, cannot be less than zero.

Salvage Value - The salvage value of improvements less the cost of removal + restore. This can be less than zero.

Agreed value given consideration to appraised value in place and value to Contractor (this can be less than zero) - not less than the appraised salvage value.

Conclusion that working value should not be excluded from the contract definition of improvements if it is in addition to the working necessary to permit repairs. This is - if it is related to the production equipment that was installed. Tom Daly, from his observation, thought this was the case + WRM agreed - was, in fact, sure this was so.

Bill, though, pointed out that it really wouldn't make much difference in the examples.

1. As improvements - The industry agreed value would be what we could recover

as salvage - No profit or loss to contractor

2. As repairs - Inconceivable AEC would abandon the repairs unless they were profitable. ^{again}

Abandonment - applies only to property. They cannot abandon improvements.

The pits, trenches, holes ^{should} can most certainly be considered improvements. Those requiring resolution with the AEC are ^{to be} mutually agreed value which based on current value will be an expense to restore. Restoration is available to us through the current value to Contractor.

TB179VV EUA965GRA611
PP RUEPNY
DE RUEPXS 048 2592024
ZNR UUUUU
T 516-433-9526
P 162010Z

9
9/17/65

FM R C BLAIR USAEC N AUGUSTA SC
TO W R MANDARO SYLOR DIV SYLVANIA ELECTRIC PRODUCTS INC HICKSVILLE
NY
AEC
BT

UNCLAS EFFECTIVE IMMEDIATELY UPON RECEIPT OF YOUR CONCURRENCE
PARAGRAPH 2 CMM ARTICLE VIII CMM SETTLEMENT OF GOVERNMENT
IMPROVEMENTS CMM OF CONTRACT AT/30-1/-1293 SHALL BE AMENDED TO READ
AS FOLLOWS

"UPON TERMINATION OR EXPIRATION OF THIS AGREEMENT CMM THE APPRAISED
NET SALVAGE VALUE OF THE IMPROVEMENTS SHALL BE DETERMINED BY MUTUAL
AGREEMENT OF THE PARTIES FOLLOWING SEPARATE APPRAISALS TO BE MADE
BY AN APPRAISER TO BE SELECTED BY THE GOVERNMENT AND AN APPRAISER
TO BE SELECTED BY THE CONTRACTOR. PROMPTLY FOLLOWING DETERMINATION
OF THE APPRAISED VALUE IN PLACE AND THE APPRAISED NET SALVAGE VALUE

PAGE 2 RUEPXS 048 UNCLAS

~~CMM THE CONTRACTOR SHALL IN GOOD FAITH FURTHER NEGOTIATE WITH AND PAY
TO THE GOVERNMENT AN AMOUNT EQUAL TO THE MUTUALLY AGREED VALUE OF
SUCH IMPROVEMENTS. THE MUTUALLY AGREED VALUE SHALL BE DETERMINED
AFTER GIVING FULL CONSIDERATION TO THE APPRAISED VALUE IN PLACE
AND THE CURRENT VALUE TO THE CONTRACTOR OF SUCH IMPROVEMENTS. IN
NO EVENT SHALL THE MUTUALLY AGREED VALUE BE LESS THAN THE APPRAISED
NET SALVAGE VALUE OF THE IMPROVEMENTS. FAILURE TO AGREE UPON EITHER
THE APPRAISED VALUED VALUE IN PLACE CMM THE APPRAISED NET SALVAGE CMM
OR CMM THE MUTUALLY AGREED VALUE PURSUANT TO THE FOREGOING PROVISIONS
OF THIS ARTICLE SHALL BE CONSIDERED A DISPUTE TO BE SETTLED IN
ACCORDANCE WITH THE GENERAL PROVISIONS OF THIS CONTRACT ENTITLED
DISPUTES." REF C-AMC~~

BT

NNNN
SYLOR HICVL

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UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

TO : J. S. Hopkins, Director
Administrative Division

FROM : *A. Y. Morgan*
A. Y. Morgan, Director
Budget and Finance Division

DATE: SEP 20 1965

Document No. SR-FB-1180

This document consists of 4 pages

SUBJECT: REVISED SYLCOR PROPOSALS P-65-3 AND P-66-2

No. 1 of 7 copies. Series A

FB:MER:ebk

We have reviewed Sylcor's revised proposals for the period ending September 30, 1965 and submit the following for your consideration in modifying the contract.

I. Scope Changes

The changes that warrant a revision in the fee base are:

- (a) Reduction in Mark V-E production -
August and September 1965 82,000 lbs.
- (b) Reduction in Mark V-E production - July 1965 13,500 lbs.
- (c) Underrun in fabricated equipment
- (d) Close-out costs equipment dismantling,
decontamination, etc.

With the above scope changes we have derived the following fee base, all items being based on estimated costs.

	P-65-2	P-65-3	P-66-2	Total	Current	Change
	10-1-64	5-1-65	8-1-65	Revised	P-65-2	+ or (-)
	4-30-65	7-31-65	9-30-65	Fee Base		
Mark V-B Reg.	\$169,380	\$ -0-	\$ -0-	\$ 169,380	\$ 169,380	\$ -0-
Mark V-B 12"	97,660	-0-	-0-	97,660	97,660	-0-
Mark V-E	523,650	201,100	-0-	724,750	922,930	(198,180)
Thorium	5,760	-0-	-0-	5,760	5,760	-0-
Fab. Equip.	29,060	2,400	-0-	31,460	45,950	(14,490)
Termination	-0-	46,890	182,820	229,710		229,710
Subcontract for Decontamination	-0-	-0-	(58,400) ^{b/}	(58,400) ^{b/}	-0-	(58,400)
V-E Underrun - July	-0-	(25,480) ^{a/}	-0-	(25,480) ^{a/}	-0-	(25,480)
Total	<u>\$825,510</u>	<u>\$224,910</u>	<u>\$124,420</u>	<u>\$1,174,840</u>	<u>\$1,241,680</u>	<u>\$(66,840)</u>
Fee @ 6%				<u>\$ 70,490</u>	<u>\$ 74,501</u>	<u>\$(4,011)</u>

a/ This represents Sylcor's estimate of the cost of producing 1,456 V-E Slugs or about 13,500 pounds which were scheduled to be produced in July 1965 in P-65-3, but were not produced.

b/ This represents the estimated subcontract costs for decontamination which are not expected to be incurred in the contract period ending September 30, 1965.

~~RESTRICTED DATA~~

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GROUP 1

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DATE DOWNGRADING
CLASSIFICATION

This document contains Restricted Data as defined in the Atomic Energy Act of 1954, and its amendments, and is intended to be controlled and its disclosure to be restricted to authorized persons in accordance with the provisions of the Atomic Energy Act of 1954, and its amendments.

Savings Bonds Regularly on the Payroll Savings Plan

~~SECRET~~

J. S. Hopkins

- 2 -

SEP 20 1965

Actual cost and production is compared with the estimates in the following table.

	Estimates 10/1/65 - 9/30/65	Actual 10/1/64 thru 7/3/65	Variation
<u>Production</u>			
Mark V-E lbs.	421,074 ^{c/}	422,446	1,372
Mark V-B Reg. lbs.	128,000	126,995	(1,005)
Mark V-B 12" sets	560	653	
Thorium ^{d/}	-	-	
<u>Costs</u>			
Mark V-E	699,270	781,084	81,814
Mark V-B 8"	169,380	222,465 ^{e/}	53,085
Mark V-B 12"	97,660	85,004	(12,656)
Thorium	5,760	28,496	22,736
Equip. fab.	31,460	43,115	11,655
Termination	<u>171,310</u>	<u>37,897</u>	<u>(133,413)</u>
Total Costs	<u>1,174,840</u>	<u>1,198,061</u>	<u>23,221</u>

^{c/} 96,000 lbs P-65-1 Oct-Nov 1964; 216,000 lbs Dec-April P-65-2; 122,574 lbs P-65-3; (13,500) lbs P-66-2

^{d/} Basically completed prior to this contract period for fee purposes

^{e/} Includes 47,523 costs of write-off of Inv. & Alcoa cancellation

Conclusion

Sylcor has basically performed their production requirements as established in the contract. A fee of \$70,490 should be negotiated for the year ending September 30, 1965. The \$58,400 included in their proposal P-66-2 of September 8, 1965 for decontamination should be deleted from this proposal. An amount of \$25,480 should be deleted from their proposal P-65-3 of June 1, 1965 for not completing about 13,500 lbs. of Mark V-E elements.

A new contract will be negotiated to cover termination costs beyond September 30, 1965, with fee being paid to assure a competent job of decontamination by a subcontractor.

Contract Finance Information

<u>Obligations</u>	<u>Operations</u>	<u>Equipment</u>	<u>Total</u>
Unpaid Obligations 6/30/65	\$ 512,226	-0-	\$ 512,226

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USDOE 017795

~~SECRET~~

J. S. Hopkins

- 3 -

SEP 20 1965

Contract Finance Information (cont'd)

<u>Requirements</u>	<u>Operations</u>	<u>Equipment</u>	<u>Total</u>
Working Capital 6/30/65 (negative)	\$ 9,155	-0-	\$ 9,155
Costs - July Actual	54,811		54,811
Costs - August and September - P-66-2	131,884	-0-	131,884
Fee Withheld (Est.)	10,985	-0-	10,985
Commitments 9/30/65 (Est.)	100,000	-0-	100,000
Total Requirements	\$ 306,835	-0-	\$ 306,835

Deobligate This Modification	<u>\$(205,391)</u>	<u>\$(205,391)</u>
Equipment		\$(2,516)
Operations & Fee		\$(202,875)

The Revised Estimated Cost is as Follows

<u>Activity</u>	<u>P-66-2</u>			<u>Inc. Fee P-65-2</u>	<u>Change</u>
	<u>Cost</u>	<u>Fee</u>	<u>Total</u>		
Mark V-E	\$ 739,128	\$41,956	\$ 781,084	\$ 980,157	\$(199,073)
Mark V-B Reg.	212,302	10,163	222,465	173,258	49,207
Mark V-B 12"	79,144	5,860	85,004	96,973	(11,969)
Thorium	28,151	345	28,496	27,153	1,343
Fab. Equip.	41,228	1,887	43,115	50,200	(7,085)
Purchased Equip.	9,038	-0-	9,038	9,800	(762)
Termination	152,038	10,279	162,317	-0-	162,317
Total	<u>\$1,261,029</u>	<u>\$70,490</u>	<u>\$1,331,519</u>	<u>\$1,337,541</u>	<u>\$(6,022)</u>

Recap of Costs & Fixed Fee and Obligations

	<u>Mod. 40</u>	<u>Increase (Decrease)</u>	<u>Mod. 41</u>
	Operating Costs	\$30,239,302	\$(198,864)	$30,040,438
Plant and Capital Equip. (Beginning July 1, 1965)	261,289	(12,516)	248,773
Fixed Fee (Operations)	1,712,082	(4,011)	1,708,071
Total Estimated Cost	<u>\$32,212,673</u> a/	<u>\$(215,391)</u>	<u>\$31,997,282</u>
Commission Obligation	\$32,202,673	\$(205,391)	\$31,997,282
Operation & Fee	-	1,825	
Equipment	-	(2,516)	
Commitments Operating	-	(204,700)	

a/ Included 10,000 Equipment First Quarter FY 1966 Not Obligated

~~SECRET~~

USDOE 017796

~~SECRET~~

J. S. Hopkins

- 4 -

SEP 10 1965

Contract Article Changes

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$30,289,211, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2., of Article V of the Contract is \$1,708,071. The estimated cost of the work, as described in paragraph 1. of the Article entitled Scope of Work for the period October 1, 1964, to September 30, 1965, is \$1,174,840, exclusive of the Contractor's fixed fee of \$70,490." *1,241,027 (change by Telecom w/ Robinson 10/27/65)*

2. In paragraph 2., Obligation of Funds of Article IV - ESTIMATE OF COST, OBLIGATION OF FUNDS, AND FIXED FEE, the figure "\$32,202,673" is deleted and the figure "\$31,997,282" is substituted therefor.

3. Subparagraph (f) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE is revised to read:

"(f) The fixed fee applicable to work performed during the period October 1, 1964, to September 30, 1965, is \$70,490."

4. Subparagraph (f) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS is revised to read:

"(f) For the period October 1, 1964, through September 30, 1965, ninety percent (90%) of the fixed fee of \$70,490 shall become due and payable in monthly installments as follows:

October-November 1964	\$6,856
December, 1964 - July, 1965	5,334
August-September, 1965	3,528

- cc: J. J. Wise, Manager's Office, cy. 2A
 R. A. Messick, B&F, cy. 3A
 N. J. Donahue, T&P, cy. 4A

~~SECRET~~

USDOE 017797

September 23, 1965

Mr. R. C. Blair, Manager
U.S. Atomic Energy Commission
Savannah River Operations Office
P.O. Box A
Aiken, S.C.

Dear Mr. Blair:

Enclosed is our proposal for extension of the contract work beyond September 30, 1965 for purposes of finalization of closeout expenses. We cannot submit this proposal on a fixed price basis as requested by Messrs. Hopkins and Donahue during their recent visit. We do not have firm figures on the decontamination service and feel that any labor required in the cleanout should be on a CPFF basis.

In considering the time involved in the cleanout and decontamination along with the continuing administrative requirements, we propose the following contractual arrangement.

1. Terminate Contract 1293 as of September 30, 1965 for closure of integrated books and records.
2. Initiate a new CPFF contract effective October 1, 1965 for the cleanout and administrative expenses involved in the closeout.
3. Decontamination service, travel, and Syloor labor involved in the physical cleanout will be charged on an actual cost basis.
4. Administrative expense be fixed at \$17,570 disregarding time involved in this closeout. This amount was calculated

SYL00051794

Mr. Blair

-2-

9/23/65

based on estimated percentage of time of accounting and management personnel involved in closeout of the integrated contract books, audit and settlement of improvements and other contractual matters.

The total cost of this closeout is estimated at \$75,940 plus \$3,800 of fixed fee. The largest item involved is the decontamination service estimated at \$50,000.

If this proposal meets with your approval we would appreciate your preparing a contract document prior to October 1, 1965.

Very truly yours,

SYLOR DIVISION
PENNSYLVANIA ELECTRIC PRODUCTS INC.

WRM/EE
Enc.

cc: W Crowley
G Gannon

W. R. Mandaro
Manufacturing Manager

SYL00051795

To Blair
AEC SROO

Enclosed is our proposal for extension of the contract work beyond September 30, 1965 for purposes of finalization of closeout expenses. We cannot submit this proposal on a fixed price basis as requested by Maxine Hopkins and Donohue during their recent visit. We do not have firm figures on the decontamination service and feel that any labor required in the clean out should be on a CPFF basis.

In considering the time involved in the clean-out and decontamination along with the continuing administrative requirements we propose the following contractual arrangement.

1. Terminate Contract 1293 as of September 30, 1965 for closure of integrated books and records.
2. Initiate a new CPFF Contract effective October 1, 1965 for the clean out and administrative expenses involved in the close out
3. Decontamination service, travel, and Sylcor labor involved in the physical clean out will be charged on an actual cost basis.

4. Administrative expense be fixed at \$17,570 disregarding time involved in this closeout. This amount was calculated based on ^{estimated} percentage of time of accounting and management personnel involved in closeout of ^{the} integrated contract books, audit and settlement of improvements and other contractual matters.

The total cost of this closeout is estimated at \$75,940 plus \$3,800 of fixed fee. The largest item involved is the decontamination service estimated at \$50,000.

If this proposal meets with your approval we would appreciate you preparing a contract document prior to October 1, 1965.

Very truly yours
WRM

SYLOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.
HICKSVILLE, NEW YORK

CONTRACT 1293 TERMINATION

I. Termination Cost Proposal - Due 6/30/65

- A. Decontamination of all necessary equipment, grounds and buildings.
H. Grieb making survey on equipment - production machining, burning building, pump house, sumps, etc. Due Date 6/25/65.
- B. Equipment and materials to be moved to SROO and other A E C locations - includes rigging, crating and shipping expense.
Eh. Meyer by 6/18/65.
- C. Packaging and shipment in drums of all contaminated materials and equipment for burial. H. Grieb by 6/25/65.
- D. Removal of piping and equipment affixed to buildings and replace buildings to acceptable condition. Eh. Meyer by 6/25/65.

II. Close-out Negotiations

- A. Settlement of improvements to buildings at fair value.
- B. Negotiate with A E C for purchase of materials and equipment we want.

SYL 000504

SYLOR DIVISION
 SYLVANIA ELECTRIC PRODUCTS INC.
 Hicksville, New York
 Contract AT(30-1)-1293

Contract Closeout
 Proposal-CPEE Basis

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Total</u>
1. BUILDINGS & AREA CLEANUP				
<u>Actual Expense Basis</u>				
Labor (Time Cards)	2,250	1,050	--	3,300
Payroll Cost (20% of Labor)	450	210	--	660
Heat & Light (Fixed Am't per Mo.)	800	800	--	1,600
Misc Materials (Actual Purchases)	300	200	--	500
TOTAL	3,800	2,260	--	6,060
2. ADMINISTRATIVE EXPENSE				
<u>Fixed Monthly Basis</u>				
Labor - Accounting	1,940	1,120	1,120	4,180
Management	1,150	950	950	3,050
Health, Safety, Security	1,910	1,240	1,240	4,390
TOTAL LABOR	5,000	3,310	3,310	11,620
Payroll Cost @ 20%	1,000	660	660	2,320
Occupancy @ 6%	300	200	200	700
Other Office Exp. @ 8%	400	270	250	930
Legal Expense	2,000	--	--	2,000
TOTAL FIXED ADMIN EXPENSE	8,700	4,440	4,430	17,570
3. OTHER EXPENSES				
<u>Actual Expense Basis</u>				
Decontamination Service	--	50,000	--	50,000
Travel	600	600	--	1,200
TOTAL	600	50,600	--	51,200
TOTAL COST	13,100	57,300	4,430	74,830
Home Office G&A @ 1.5%	200	860	50	1,110
TOTAL	13,300	58,160	4,480	75,940
FIXED FEE	670	2,910	220	3,800
TOTAL CONTRACT	13,970	61,070	4,700	79,740

SYL 000508

CONTRACT 1293 CLOSEOUT ESTIMATE

PERCENTAGE OF TIME
OCT NOV DEC

DIRECT WORK

M. POLOWICZ

100 50 -

A. PETRUCCI

100 50 -

2 COMM MEN

100 50 -

\$ 2254 \$ 1073 \$ 3327

ACCOUNTING

W. CROWLEY

40 40 40

A. GANNON

100 100 50 50

R. BANGS

90 50 50

W. HAVENOR

35 10 10

R. PHILLIPS

10 5 5

C. DALY

5 5 5

T. ALEXA

5 5 5

R. RAFTERY

5 5 5

\$ 1458 \$ 1123 \$ 1123 \$ 4184

MANAGEMENT

W. MANDARO

40 25 40 40

G. GOLDEN

30 15 15

M. BOLL

40 40 40

G. STIGLIC

30 15 15

\$ 1119 \$ 950 \$ 950 \$ 3049

HEALTH, SAFETY, SECURITY

H. GRIEB

75 75 75

H. FELTMAN

100 50 50

R. MULLEN

100 50 50

\$ 1906 \$ 1240 \$ 1240 \$ 4386

SYL 000509

DATA USED AS BASIS FOR AEC PROPOSAL

PERIOD JAN - AUG 1965

DIV G+A DIV SERVICE

SALARIES	\$ 90.9	31.3	
TELEPHONE	7.6	1.2	
OFFICE SUPPLY	1.0	.1	
OPER. SUPPLY	.3	.5	
RENT OF EQUIP	.1	.1	
DEPRECIATION	.7	.3	
DUES & TUITION	.5	.5	
OFFICE MAINT	.1	-	
TOTAL	\$ 7.0	2.7	
% OF SALARY	7.7%	8.6%	→ USE <u>8%</u>

OCCUPANCY	\$ 5.9	6.0	
% OF SALARY	6.5%	19.2%	→ USE <u>6%</u>

ACCOUNTING DEPT OCCUPANCY	JAN-JUNE '65	\$ 1840
" " SALARIES	" " "	29,800
	% =	6.2%

<u>HEAT & LIGHT BLDGS 1+2</u>	<u>BLDG 1</u>	<u>BLDG 2</u>	<u>TOTAL</u>	<u>AVE mo</u>
HEAT JAN-AUG '65	5770	1808	7278	910
LIGHT JAN-AUG '65	5312	6710	12,022	1503

FOR PURPOSE OF CLOSEOUT ASSUME 1/3 OF AVERAGE MONTH HEAT 300 LIGHT 500

SYL 000510

CONTRACT 1293 CLOSEOUT

1. AEC PAYROLL TO BE ELIMINATED AT 9-30-65.

CALCULATE ACCURATE ENDING ACCRUAL - ADJUST CAMILLUS
ACCRUAL TO REFLECT THIS ACCURATE ACCRUAL. CHARGE
DIFFERENCE TO COMMERCIAL WHICH WILL BE ADJUSTED ON
THE OCTOBER REVERSAL, AL GANNON TO BE CHARGED TO
DEPT 80.

2. STARTING OCT 1. ALL WORK IN CONNECTION WITH AEC
CLOSEOUT DONE BY COMMERCIAL PEOPLE WILL BE CHARGED
TO AEC AT ACTUAL HOURLY RATES PLUS 22% PAYROLL
COST PLUS A FACTOR FOR SOME (?) OVERHEAD.

3. PREPARE PROPOSAL FOR AEC FOR CLOSEOUT STARTING OCT 1
FOR 90 DAYS. ESTIMATE DIRECT HOURS REQUIRED PLUS
PERCENTAGE OF TIME FOR EXPENSE EMPLOYEES - MONTHLY BASIS
W.R.M - G. GOLDEN - M.B. - A.G. - J. STICLIC - ^{R. MULLEN} ACCTG DEPT. - GRIER - ~~WINTER~~
OTHER CHARGES - DECONTAMINATION - APPRAISAL - CLEAN UP (OUTSIDE)
HEAT - POWER & LIGHT - PORTER - HOME OFFICE G+A - LEGAL EXP.

SYL 000511

SYLOR DIVISION
 SYLVANIA ELECTRIC PRODUCTS INC.
 Hicksville, New York
 Contract AT(30-1)-1293

Contract Closeout
 Proposal-CPPF Basis

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Total</u>
1. BUILDINGS & AREA CLEANOUT				
<u>Actual Expense Basis</u>				
Labor (Time Cards)	2,250	1,050	--	3,300
Payroll Cost (20% of Labor)	450	210	--	660
Heat & Light (Fixed Am't per Mo.)	800	800	--	1,600
Misc Materials (Actual Purchases)	300	200	--	500
TOTAL	3,800	2,260	--	6,060
2. ADMINISTRATIVE EXPENSE				
<u>Fixed Monthly Basis</u>				
Labor - Accounting	1,940	1,120	1,120	4,180
Management	1,150	950	950	3,050
4 men <i>Dust</i> Health, Safety, Security	1,910	1,240	1,240	4,390
TOTAL LABOR	5,000	3,310	3,310	11,620
Payroll Cost @ 20%	1,000	660	660	2,320
Occupancy @ 6%	300	200	200	700
Other Office Exp. @ 8%	400	270	260	930
Legal Expense	2,000	--	--	2,000
TOTAL FIXED ADMIN EXPENSE	8,700	4,440	4,430	17,570
3. OTHER EXPENSES				
<u>Actual Expense Basis</u>				
Decontamination Service	--	50,000	--	50,000
Travel	600	600	--	1,200
<i>Appraisal</i>	600	600	--	1,200
TOTAL	600	50,600	--	51,200
TOTAL COST	13,100	57,300	4,430	74,830
Home Office G&A @ 1.5%	200	860	50	1,110
TOTAL	13,300	58,160	4,480	75,940
FIXED FEE	670	2,910	220	3,800
TOTAL CONTRACT	13,970	61,070	4,700	79,740

1060
 2000
 2860

3800
 2060
 1740

3025 1000 1000

SYL 000512

17660
1059.60

17660
1.5
88300
17460
264900
185

SYL 000513

SYLOR DIVISION
 SYLVANIA ELECTRIC PRODUCTS INC.
 Hicksville, New York
 Contract AT(30-1)-1293

Contract Closeout
 Proposal-CPFF Basis

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Total</u>
1. BUILDINGS & AREA CLEANOUT				
<u>Actual Expense Basis</u>				
Labor (Time Cards)	2,250	1,050	--	3,300
Payroll Cost (20% of Labor)	450	210	--	660
Heat & Light (Fixed Am't per Mo.)	800	800	--	1,600
Misc Materials (Actual Purchases)	300	200	--	500
TOTAL	3,800	2,260	--	6,060
2. ADMINISTRATIVE EXPENSE				
<u>Fixed Monthly Basis</u>				
Labor - Accounting	1,940	1,120	1,120	4,180
Management	1,150	950	950	3,050
Health, Safety, Security	1,910	1,240	1,240	4,390
TOTAL LABOR	5,000	3,310	3,310	11,620
Payroll Cost @ 20%	1,000	660	660	2,320
Occupancy @ 6%	300	200	200	700
Other Office Exp. @ 8%	400	270	260	930
Legal Expense	2,000	--	--	2,000
TOTAL FIXED ADMIN EXPENSE	8,700	4,140	4,430	17,570
3. OTHER EXPENSES				
<u>Actual Expense Basis</u>				
Decontamination Service	--	50,000	--	50,000
Travel	600	600	--	1,200
TOTAL	600	50,600	--	51,200
TOTAL COST	13,100	57,300	4,430	74,830
Home Office G&A @ 1.5%	200	360	50	1,110
TOTAL	13,300	58,160	4,480	75,940
FIXED FEE	670	2,310	220	3,800
TOTAL CONTRACT	13,970	61,370	4,700	79,740

SYL 000514

SYLOR DIVISION
 SYLVANIA ELECTRIC PRODUCTS INC.
 Hicksville, New York
 Contract AT(30-1)-1293

Contract Closeout
 Proposal-JFFP Basis

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Total</u>
1. BUILDINGS & AREA CLEANOUT				
<u>Actual Expense Basis</u>				
Labor (Time Cards)	2,250	1,050	--	3,300
Payroll Cost (20% of Labor)	450	210	--	660
Heat & Light (Fixed Am't per Mo.)	800	800	--	1,600
Misc Materials (Actual Purchases)	300	200	--	500
TOTAL	3,800	2,260	--	6,060
2. ADMINISTRATIVE EXPENSE				
<u>Fixed Monthly Basis</u>				
Labor - Accounting	1,940	1,120	1,120	4,180
Management	1,150	950	950	3,050
Health, Safety, Security	1,910	1,240	1,240	4,390
TOTAL LABOR	5,000	3,310	3,310	11,620
Payroll Cost @ 20%	1,000	660	660	2,320
Occupancy @ 6%	300	200	200	700
Other Office Exp. @ 8%	400	270	260	930
Legal Expense	2,000	--	--	2,000
TOTAL FIXED ADMIN EXPENSE	8,700	4,440	4,430	17,570
3. OTHER EXPENSES				
<u>Actual Expense Basis</u>				
Decontamination Service	--	50,000	--	50,000
Travel	600	600	--	1,200
TOTAL	600	50,600	--	51,200
TOTAL COST	13,100	57,300	4,430	74,830
Home Office G&A @ 1.5%	200	850	50	1,110
TOTAL	13,300	58,150	4,480	75,940
FIXED FEE	670	2,910	220	3,800
TOTAL CONTRACT	13,970	61,070	4,700	79,740

SYL 000515

SYLOR DIVISION
 PENNSYLVANIA ELECTRIC PRODUCTS INC.
 Hicksville, New York
 Contract #A(50-17-1283

	1954	1955	1956	1957
1. BUILDINGS & AREA CLEANING				
<u>Actual Expense Basis</u>				
Basic Rent (1954)	1,000	1,000	1,000	1,000
Payroll Cost (50% of Total)	200	200	200	200
Heat & Light (Fixed unit vol.)	100	100	100	100
Misc Materials (Actual Unit Cost)	100	100	100	100
TOTAL	1,400	1,400	1,400	1,400
2. ADMINISTRATIVE EXPENSE				
<u>Fixed Monthly Basis</u>				
Salary - Management	1,000	1,000	1,000	1,000
Health, Welfare, Security	1,000	1,000	1,000	1,000
TOTAL	2,000	2,000	2,000	2,000
Payroll Cost @ 50%	1,000	1,000	1,000	1,000
Occupancy @ 8%	300	300	300	300
Other Office Exp. @ 8%	400	270	200	930
Legal Expense	2,000	---	---	2,000
TOTAL FIXED ADMIN EXPENSE	8,700	4,440	4,430	17,570
3. OTHER EXPENSES				
<u>Actual Expense Basis</u>				
Decontamination Service	---	50,000	---	50,000
Travel	600	600	---	1,200
TOTAL	600	50,600	---	51,200
TOTAL COST	13,100	57,300	4,430	74,830
Home Office G&A @ 1.5%	200	850	50	1,110
TOTAL	13,300	58,150	4,480	75,940
FIXED FEE	670	2,910	220	3,800
TOTAL CONTRACT	13,970	61,070	4,700	79,740

SYL 000516

SYLCOR DIVISION
 SYLVANIA ELECTRIC PRODUCTS INC.
 Hicksville, New York
 Contract AT(30-1)-1293

Contract Closeout
 Proposal-CPRF Basis

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Total</u>
1. BUILDINGS & AREA CLEANOUT				
<u>Actual Expense Basis</u>				
Labor (Time Cards)	2,250	1,000	---	3,300
Payroll Cost (20% of Labor)	450	200	---	650
Heat & Light (Fixed Am't per Mo.)	800	800	---	1,600
Misc Materials (Actual Purchases)	300	200	---	500
TOTAL	3,800	2,200	---	6,000
2. ADMINISTRATIVE EXPENSE				
<u>Fixed Monthly Basis</u>				
Labor - Accounting	1,940	1,120	1,120	4,180
Management	1,150	950	950	3,050
Health, Safety, Security	1,910	1,240	1,240	4,390
TOTAL LABOR	5,000	3,310	3,310	11,620
Payroll Cost @ 20%	1,000	660	660	2,320
Occupancy @ 6%	300	200	200	700
Other Office Exp. @ 8%	400	270	250	930
Legal Expense	2,000	---	---	2,000
TOTAL FIXED ADMIN EXPENSE	3,700	4,440	4,430	17,570
3. OTHER EXPENSES				
<u>Actual Expense Basis</u>				
Decontamination Service	---	50,000	---	50,000
Travel	600	600	---	1,200
TOTAL	600	50,600	---	51,200
TOTAL COST	13,100	57,300	4,430	74,830
Home Office G&A @ 1.5%	200	860	50	1,110
TOTAL	13,300	58,160	4,480	75,940
FIXED FEE	670	2,910	220	3,800
TOTAL CONTRACT	13,970	61,070	4,700	79,740

SYL 000517

SYLOR DIVISION
 SYLVANIA ELECTRIC PRODUCTS INC.
 Hicksville, New York
 Contract AT(30-1)-1293

Estimated Expenses
 Proposed - 1951 Basis:

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Total</u>
1. BUILDINGS & AREA CLEANOUT				
<u>Actual Expense Basis</u>				
Labor (Time Cards)	2,250	1,300	--	3,550
Payroll Cost (20% of Labor)	450	260	--	710
Heat & Light (Fixed Am't per Mo.)	300	300	--	1,600
Misc Materials (Actual Purchases)	300	200	--	500
TOTAL	3,800	2,260	--	6,060
2. ADMINISTRATIVE EXPENSE				
<u>Fixed Monthly Basis</u>				
Labor - Accounting	1,940	1,120	1,120	4,180
Management	1,150	550	550	3,050
Health, Safety, Security	1,910	1,240	1,240	4,390
TOTAL LABOR	5,000	2,910	2,910	11,620
Payroll Cost @ 20%	1,000	580	580	2,320
Occupancy @ 5%	300	200	200	700
Other Office Exp. @ 5%	400	270	250	930
Legal Expense	2,000	--	--	2,000
TOTAL FIXED ADMIN EXPENSE	8,700	4,440	4,430	17,570
3. OTHER EXPENSES				
<u>Actual Expense Basis</u>				
Decontamination Service	--	50,000	--	50,000
Travel	600	600	--	1,200
TOTAL	600	50,600	--	51,200
TOTAL COST	13,100	57,300	4,430	74,830
Home Office G&A @ 1.5%	200	860	50	1,110
TOTAL	13,300	58,160	4,480	75,940
FIXED FEE	670	2,910	220	3,800
TOTAL CONTRACT	13,970	61,070	4,700	79,740

SYL 000518

Sharp

SYLCOB DIVISION
PENNSYLVANIA ELECTRIC PRODUCTS INC.
 Hicksville, New York
 Contract AT(30-1)-1293

Contract Closeout
 Proposal-CPFF Basis

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Total</u>
1. BUILDINGS & AREA CLEANOUT				
<u>Actual Expense Basis</u>				
Labor (Time Cards)	2,250	1,050	--	3,300
Payroll Cost (20% of Labor)	450	210	--	660
Heat & Light (Fixed Am't per Mo.)	800	800	--	1,600
Misc Materials (Actual Purchases)	300	200	--	500
TOTAL	3,800	2,260	--	6,060
2. ADMINISTRATIVE EXPENSE				
<u>Fixed Monthly Basis</u>				
Labor - Accounting	1,940	1,120	1,120	4,180
Management	1,150	950	950	3,050
Health, Safety, Security	1,910	1,240	1,240	4,390
TOTAL LABOR	5,000	3,310	3,310	11,620
Payroll Cost @ 20%	1,000	660	660	2,320
Occupancy @ 6%	300	200	200	700
Other Office Exp. @ 8%	400	270	260	930
Legal Expense	2,000	--	--	2,000
TOTAL FIXED ADMIN EXPENSE	8,700	4,440	4,430	17,570
3. OTHER EXPENSES				
<u>Actual Expense Basis</u>				
Decontamination Service	--	50,000	--	50,000
Travel	600	600	--	1,200
TOTAL	600	50,600	--	51,200
TOTAL COST	13,100	57,300	4,430	74,830
Home Office G&A @ 1.5%	200	860	50	1,110
TOTAL	13,300	58,160	4,480	75,940
FIXED FEE	670	2,910	220	3,800
TOTAL CONTRACT	13,970	61,070	4,700	79,740

9/23/65

SYL 000519

FUNDING SCHEDULE
P66-3

EST COST OCT 64 - JULY 65 P65-3	1,075,900
LESS: REDUCTION OF COST P65-3	(25,980)
P66-1 EST. COST AUG '65	84,800
P66-2 EST. COST SEPT '65	98,020
LESS: DECONTAMINATION NOT TO BE PAID IN SEPT	(58,700)

TOTAL EST COST OCT '64 - SEPT '65 1,174,840

6% FEE 70,490

OCT. 64 - JULY '65	67,554
AUG + SEPT '65	5,936
	70,490

100%		90%			
7618	Oct - Nov	6856	OCT	7618	
5927	Dec 64 - July 65	5334	Nov	7618	
3920	Aug - Sept	3528	Dec	5927	
			Jan	5927	
			Feb	5927	
			Mar	5927	
			Apr	5927	
			May	5927	
			June	5926	
			July	5926	
			Aug	3920	
			Sept	3920	
				70490	

SYLOR DIVISION
 SYLVANIA ELECTRIC PRODUCTS INC.
 HICKSVILLE, NEW YORK
 CONTRACT AT(30-1)-1293

CONTRACT CLOSEOUT
 PROPOSAL-COFF BASIS

	OCT.	NOV.	DEC.	TOTAL
1. BUILDINGS * AREA CLEANOUT				
ACTUAL EXPENSE BASIS				
LABOR (TIME CARDS)	2250	1050	-	3,300
PAYROLL COST (20% OF LABOR)	450	210	-	660
HEAT & LIGHT (FIXED AMT PER Mo)	800	800	-	1,600
MISC MATERIALS (ACTUAL PURCHASE)	300	200	-	500
TOTAL	3800	2260	-	6,060
2. ADMINISTRATIVE EXPENSE				
FIXED MONTHLY BASIS				
LABOR - ACCOUNTING	1,740	1,120	1,120	4,180
MANAGEMENT	1,150	950	950	3,050
HEALTH, SAFETY, SECURITY	1,910	1,240	1,240	4,390
TOTAL LABOR	5,000	3,310	3,310	11,620
PAYROLL COST @ 20%	1,000	660	660	2,320
OCCUPANCY @ 6%	300	200	200	700
OTHER OFFICE EXP. @ 8%	400	270	260	930
LEGAL EXPENSE	2,000	-	-	2,000
TOTAL FIXED ADMIN EXPENSE	8,700	4,440	4,130	17,570
3. OTHER EXPENSES				
ACTUAL EXPENSE BASIS				
DECONTAMINATION SERVICE	-	50,000	-	50,000
TRAVEL	600	600	-	1,200
TOTAL	600	50,600	-	51,200
TOTAL COST	13,100	57,300	4,430	74,830
HOME OFFICE G & A @ 1.5%	200	860	50	1,110
TOTAL	13,300	58,160	4,480	75,940
FIXED FEE	670	2,910	220	3,800
TOTAL CONTRACT	13,970	61,070	4,700	79,740

ALLOCATION

	<u>Total</u>	<u>AEC</u>	<u>Comm</u>
June	19,460	6,134	13,326
July	14,228	4,208	10,020
Aug	19,777	5,201	14,576
Sept	15,570	3,043	12,527



UNITED STATES
ATOMIC ENERGY COMMISSION
SAVANNAH RIVER OPERATIONS OFFICE
P. O. BOX A
AIKEN, SOUTH CAROLINA 29802

TEL: 404-724-6311
TWX: 803-631-0000
WU: AUGUSTA, GA.

October 1, 1965

Mr. W. R. Mandaro
Manufacturing Manager
Sylcor Division
Sylvania Electric Products, Inc.
Cantiague Road
Hicksville, New York 11802

Dear Mr. Mandaro:

By its terms, Contract AT(30-1)-1293 expired September 30, 1965. Paragraph 3, Expiration, of Article III, TERM EXPIRATION AND TERMINATION, of said Contract provides in the event of expiration that the Contractor shall - (ii) take such other action as may be required under other provisions of this Agreement and subject to the approval or ratification of the Commission, as may be otherwise appropriate, including but not limited to action for the protection and preservation of Government property.

Agreement is requested that, under the provisions of Paragraph 3, the following work is otherwise appropriate: (1) Decontamination of property and work area, (2) shipment of Government property, and (3) performance of accounting work as may be requested.

Upon receipt of your agreement as requested that above work is appropriate, approval is hereby given for you to proceed with said work.

Payment for such work will be governed by special terms and conditions to be mutually agreed to by the parties in early negotiations.

Failure to agree upon such terms and conditions will be handled as a dispute under Article XXI, GENERAL PROVISIONS, of the Contract.

Sincerely yours,

R. C. Blair
Manager



NOV 13 1965

UNITED STATES
ATOMIC ENERGY COMMISSION
SAVANNAH RIVER OPERATIONS OFFICE
P. O. BOX A
AIKEN, SOUTH CAROLINA 29802
(TEL. & TEL. NORTH AUGUSTA, S. C.)

NOV 12 1965

Mr. W. R. Mandaro
Manufacturing Manager
Sylcor Division
Sylvania Electric Products Inc.
Cantiague Road
Hicksville, New York 11802

Dear Mr. Mandaro:

Enclosed are five draft copies of proposed Modification No. 42 to Contract AT(30-1)-1293.

This proposed modification covers the scope of work to be performed during the 120-day period following the September 30, 1965, expiration date of the contract which was the subject of negotiations between members of our respective staffs on October 6, 1965.

Your attention is invited to item 2.(a) of the modification relating to the repair of damages caused to your property by the removal of Government-owned property. You will note that the amount of compensation has not been stated. This will be agreed upon when members of my staff meet with you next week to negotiate other matters.

These copies of the modification are being forwarded for your review prior to the meeting. If agreement is reached upon the amount of compensation for repair of damages, and the agreement is otherwise acceptable, please execute and return four copies of the modification to this office. Two fully executed copies of the modification will be returned to you together with the number of conformed copies you may require.

Sincerely yours,

R. C. Blair
Manager

Enclosures:
As stated

D R A F T 11/22/65-gg

Mr. J. Wise

Re: Contract AT(30-1)-1293 - Termination

Dear Mr. Wise:

Pursuant to the termination of the aforesaid Contract by the United States Atomic Energy Commission and to the provision of Article VIII, as amended, entitled "Settlement of Government Investment in Improvements," a meeting was held at our Hicksville site on November 17, 1965 to determine a mutually agreed upon value of certain government improvements at said Hicksville location. The meeting was attended by you and certain of your associates, as well as various representatives of Sylvania. After extended discussions, it was agreed that Sylvania would make a settlement offer, as described below. Both you and your associates were in agreement therewith.

As background for the subject offer, it was important to recite certain considerations bearing thereon and which we discussed as a result of the aforesaid Contract provision re "Initial Improvements."

In accordance with the ^{subject} Contract provision, a mutually agreed upon net salvage value for the subject improvements was concluded in an amount of \$1,700. This took into consideration the respective appraisals of the parties, wherein your quoted net salvage value was \$3,400 and our quoted net salvage value was zero. The zero figure quoted by the Company does not take into consideration the fact that the cost of removal of said improvements and related restoration far exceeds the value of said improvements. This, however, was called to your attention.

Thereafter, the parties attempted to agree upon an appraised value in place for the subject improvements, based, in part, on the

respective appraisals which had been obtained. The figure you quoted was \$36,000, whereas our appraised value in place ranged from zero to \$64,400.25, depending on the usage of the building, or the likelihood thereof. Our appraiser noted that the subject building may well have already reached a state of economic and functional obsolescence, which would make the likelihood of resale remote and thus result in the value of improvements being zero. As indicated in our discussions, we do not intend to use the subject building, but rather intend to sell it and thus the salability thereof has a direct effect on the value of these improvements. The subject appraiser, as well as other realtors has indicated that the sale of the subject building is remote, but that the land on which these improvements are located does have marketability. and a prospective purchaser undoubtedly would demolish the subject buildings. In this instance, of course, the value of these improvements would be zero and that was the basis of our initial offer.

In view of our wide ^{Dispositions} ~~diversions~~ for an amount applicable to appraised value in place for the subject improvements and the interest in settling the subject problem without awaiting the final disposition of these improvements, we agreed to officially make the following offer to you:

1. Sylvania will pay to the AEC in full settlement for the subject improvements, pursuant to the aforesaid Contract provision, the sum of \$10,000.

2. In addition to the aforementioned, Sylvania will withdraw its claim for reimbursement for cost of damage incurred in the removal

of government owned equipment from the plant said claim being in the amount of \$ 3,852. . It will also relieve the AEC from any further obligation for repairs, restoration and/or damages re the contractor's property. This release shall not include or affect the sum which the AEC has already agreed to pay the contractor for the decontamination of the subject property.

The aforesaid offer reflects our discussions at the above mentioned meeting and is made without prejudice to the Company's position on its interpretation of the subject Contract provisions or the appraised value in place. It is offered, subject to final agreement on contract language, in the interest of obtaining an equitable and expeditious settlement of the problem. If this offer is not accepted within thirty (30) days it shall be considered withdrawn.

We would appreciate your prompt consideration of this settlement offer.

Very truly yours,

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 41
Supplemental Agreement to
Contract AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

CONTRACTOR : Sylvania Electric Products Inc.
Hicksville, Long Island, New York

SUPPLEMENTAL AGREEMENT: Amend scope of work and other provisions of
the Contract.

EFFECTIVE DATE : June 1, 1965

RECAPITULATION OF REVISED COSTS AND COMMISSION OBLIGATION

	<u>Modification No. 40.</u>	<u>Increase (Decrease)</u>	<u>Modification No. 41</u>
Operating Costs	\$ 30,239,302	\$(198,864)	\$ 30,040,438
Plant and Capital Equipment (Beginning July 1, 1965)	261,289	(12,516)	248,773
Fixed Fee (Operations)	<u>1,712,082</u>	<u>(4,011)</u>	<u>1,708,071</u>
Total Estimated Cost	<u>\$ 32,212,673 a/</u>	<u>\$(215,391)</u>	<u>\$ 31,997,282</u>
Commission Obligation	\$ 32,202,673	\$(205,391)	\$ 31,997,282
Operation & Fee	--	1,825	
Equipment	--	(2,516)	
Commitments Operating	--	(204,700)	

a/ Included \$10,000 equipment first quarter FY 1966 not obligated.

~~SECRET~~

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USDOE 017350

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 41
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 29th day of November, 1965, effective June 1, 1965, unless otherwise hereinafter specifically provided, by and between the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and the parties desire to further amend said Contract to revise the scope of work and to amend certain other provisions of the Contract as hereinafter set forth; and

WHEREAS, this Supplemental Agreement is authorized by the Atomic Energy Act of 1954, as amended;

NOW, THEREFORE, the parties do mutually agree as follows:

1. Paragraph 1., Estimate of Cost and Fixed Fee, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, is revised to read as follows:

"1. Estimate of Cost and Fixed Fee. The presently estimated cost of the work under this Contract is \$30,289,211, exclusive of the Contractor's fixed fee. The Contractor's fixed fee as set forth in paragraph 2. of Article V of the Contract is \$1,708,071. The estimated cost of the work as described in paragraph 1 of the article entitled Scope of Work for the period October 1, 1964, to September 30, 1965, is \$1,261,029, exclusive of the Contractor's fixed fee of \$70,490."

2. In paragraph 2., Obligation of Funds, of Article IV - ESTIMATES OF COSTS, OBLIGATION OF FUNDS AND FIXED FEE, the figure "\$32,202,673" is deleted and the figure "\$31,997,282" is substituted therefor.

3. Subparagraph (f) of paragraph 2., Fixed Fee, of Article V - ALLOWABLE COST AND FIXED FEE, is revised to read:

"(f) The fixed fee applicable to work performed during the period October 1, 1964, to September 30, 1965, is \$70,490."

CONFORMED COPY

USDOE 017351

Modification No. 41
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

4. Subparagraph (f) of paragraph 2., Payment of Fixed Fee, of Article VI - PAYMENTS, is revised to read:

"(f) For the period October 1, 1964, through September 30, 1965, ninety percent (90%) of the fixed fee of \$70,490 shall become due and payable in monthly installments as follows:

October-November 1964	\$6,856
December 1964 -- July 1965	5,334
August-September 1965	3,528

5. Appendix "B," Modification No. 29, as amended, is further amended as of June 1, 1965, and is attached hereto and made a part hereof.
6. All other terms and conditions of the Contract remain unchanged.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: /s/ H. L. Kilburn

TITLE: Deputy Manager, SROO

SYLVANIA ELECTRIC PRODUCTS, INC.

BY: /s/ W. R. Mandaro

TITLE: Manufacturing Manager

WITNESSES:

/s/ Mary G. Steglie

Hicksville, New York
(Address)

/s/ M. Boll

Hicksville, New York
(Address)

Modification No. 41
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

I, J. M. Toohar, certify that I am Asst. Secretary
of Sylvania Electric Products Inc. named above; that W. R. Mandaro
who signed this Agreement on behalf of said corporation, was then Mfg.
Manager of said corporation, and that this Agreement
was duly signed for and in behalf of said corporation by authority of its govern-
ing body and within the scope of its corporate powers.

Witness my hand and seal of said corporation this 17th day of November,
1965.

(CORPORATE SEAL)

/s/ J. M. Toohar

Those Listed Below

November 30, 1965

R. A. McFeely, Chief of Contracts
Administrative Division

CONTRACT AT(30-1)-1293 - SYLVANIA ELECTRIC PRODUCTS INC.

AC:RAF:pc

All work under the subject contract has been completed and the contract has expired. Please furnish the necessary security and patent clearances.

Addressees:

J. H. Jones, Director, Security Division
R. G. Erdley, Chief, Patent Branch, OCC

USDOE 017199

11-11-65
J. B. [unclear]
December 6, 1965

Mr. R. C. Blair, Manager
U.S. Atomic Energy Commission
Savannah River Operations Office
P.O. Box A
Aiken, S.C.

Dear Mr. Blair:

Re: Contract AT(29-1)-1791 - Termination

Pursuant to the termination of the aforesaid Contract by the United States Atomic Energy Commission and to the provision of Article VIII, as amended, entitled "Settlement of Government Investment in Improvements," a meeting was held at our Hicksville site on November 17, 1965 to determine a mutually agreed upon value of certain government improvements at said Hicksville location. The meeting was attended by Mr. Wise and certain of his associates, as well as various representatives of Sylvania. After extended discussions, it was agreed that Sylvania would make a settlement offer, as described below. Both Mr. Wise and his associates were in agreement therewith.

As background for the subject offer, it was important to recite certain considerations bearing thereon and which we discussed as a result of the aforesaid Contract provision re "Initial Improvements."

In accordance with the subject Contract provision, a mutually agreed upon net salvage value for the subject improvements was concluded in an amount of \$1,700. This took into consideration the respective appraisals of the parties, wherein your quoted net salvage value was \$3,400 and our quoted net salvage value was zero. The zero figure quoted by the Company does not take

into consideration the fact that the cost of removal of said improvements and related restoration far exceeds the value of said improvements. This, however, was called to the Savannah River representatives' attention.

Thereafter, the parties attempted to agree upon an appraised value in place for the subject improvements, based, in part, on the respective appraisals which had been obtained. The figure the AEC quoted was \$36,000, whereas our appraised value in place ranged from zero to \$64,400.25, depending on the usage of the building, or the likelihood thereof. Our appraiser noted that the subject building may well have already reached a state of economic and functional obsolescence, which would make the likelihood of resale remote and thus result in the value of improvements being zero. As indicated in our discussions, we do not intend to use the subject building, but rather intend to sell it and thus the salability thereof has a direct effect on the value of these improvements. The subject appraiser, as well as other realtors has indicated that the sale of the subject building is remote, but that the land on which these improvements are located does have marketability and a prospective purchaser undoubtedly would demolish the subject buildings. In this instance, of course, the value of these improvements would be zero and that was the basis of our initial offer.

In view of our wide divergence for an amount applicable to appraised value in place for the subject improvements we negotiated a mutually agreed appraised value in place of \$25,000.00. With that figure and the mutually agreed net salvage value as our bases and in the interest of settling the subject problem without awaiting the final disposition of these improvements, we agreed to officially make the following offer to you:

1. Sylvania will pay to the AEC in full settlement for the subject improvements, pursuant to the aforesaid Contract provision, the sum of \$10,000.
2. In addition to the aforementioned, Sylvania will withdraw its claim for reimbursement for cost of damage incurred in the removal of government owned equipment from the plant said claim being in the amount of \$3,852.00. It will also relieve the AEC from any further obligation for repairs, restoration, and/or damages re the contractor's property. This release shall not include or affect the agreement of the parties expressed in Modification No. 42 to Contract AT(30-1)-1293.

Mr. R. C. Blair

-3-

12/8/68

The aforesaid offer reflects our discussions at the above mentioned meeting and is made without prejudice to the Company's position on its interpretation of the subject Contract provisions. It is offered, subject to final agreement on contract language, in the interest of obtaining an equitable and expeditious settlement of the problem.

We would appreciate your prompt consideration of this settlement offer.

Very truly yours,

SYLCO DIVISION
PENNSYLVANIA ELECTRIC PRODUCTS INC.

WRM/gg

cc. M. Bue

W. R. Mandaro
Manufacturing Manager

December 6, 1965

Mr. R. C. Blair, Manager
U.S. Atomic Energy Commission
Savannah River Operations Office
P.O. Box A
Aiken, S.C.

Dear Mr. Blair:

Re: Modification #42
Contract AT(30-1)-1293

Enclosed are four copies of the subject modification,
duly signed for Sylcor.

Please note that, as per agreement reached, we have
inserted "zero" as the amount payable under Article 2 (a)
of the modification.

We will await two fully executed copies after necessary
Government signatures have been affixed.

Yours very truly,

SYLCOR DIVISION
SYLVANIA ELECTRIC PRODUCTS INC.

MB/gg
Enc.

Milton Boll
Contract Administrator

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 42
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

Patent Bar
No. 62-100
My fully
12/2/66

THIS SUPPLEMENTAL AGREEMENT, entered into the 15th day of December, 1965, effective October 1, 1965, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor at its Hicksville, Long Island, Plant of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time to revise the scope of work and other provisions therein; and

WHEREAS, the Contract, as so amended and revised, now provides in Article VII - GOVERNMENT PROPERTY, that there shall be no charge to the Government for the storage of Government-owned property at the Contractor's Hicksville Plant for a period of 120 days after expiration of said Contract and in Article III - TERM, EXPIRATION AND TERMINATION, that upon expiration, the Contractor shall: (1) discontinue work thereunder, and (2) take such other action as may be required under the provisions of the Contract and subject to the approval of the Commission, such other action as may be appropriate; and

WHEREAS, said Contract expired on September 30, 1965, and the parties thereto now desire to make a written record of the appropriate work which it has been agreed shall be performed by the Contractor within 120 days after such expiration and of the terms and conditions under which such work will be performed; and

WHEREAS, this Modification has been prepared for the purpose of amending the parties' Agreement as aforesaid and for no other purpose.

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. That within a period of 120 days beginning October 1, 1965, the Contractor shall perform the following work at its Hicksville Plant.
 - (a) Furnish or cause to be furnished all personnel, equipment, tools, and materials necessary to decontaminate the entire AT(30-1)-1293 Contract area at Sylcor's Hicksville, New York, facility including the demolition of Building No. 8. Said buildings and ground areas shall be decontaminated to 2000 dpm/100 sq. cms. (disintegrations per minute per 100 square centimeters) fixed alpha and 100 dpm/100 sq. cms. removable alpha.

CONFORMED COPY

USDOE 017193

Modification No. 42
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

- (b) Prepare, crate, and effect the shipment of Government property as directed by the Commission.
 - (c) Perform such accounting work in connection with the above as may be requested by the Commission.
2. As full and complete compensation for the work performed by the Contractor as provided in 1. above, the Government shall pay the Contractor:
- (a) For repair of damages caused to the Contractor's property by the removal of Government-owned property therefrom, the fixed sum of \$ -0- payable upon final financial settlement of this Contract.
 - (b) For all work except that referred to in (a) hereof performed by the Contractor pursuant to 1. above, the following:
 - (1) Direct labor and salaries at an actual cost basis, based on time records maintained by the Contractor. In addition, a fixed rate of 20% of direct labor and salaries shall be paid for fringe benefits and payroll taxes. These amounts shall be paid monthly as incurred and invoiced.
 - (2) Heat, lights, utility services, and miscellaneous materials used by the Contractor in the performance of work on an actual cost basis, payable monthly as incurred and invoiced.
 - (3) Decontamination of the Plant at a subcontract amount approved by the Contracting Officer, payable monthly as incurred and invoiced.
 - (4) For Hicksville Plant indirect expense (including management, accounting and all other overhead) plus home office general and administrative expense (corporate level), a fixed amount of \$5,030, payable when invoiced as follows: at October 31 - \$3,030; at November 30 - \$1,000; at December 31 - \$1,000.
 - (5) A fixed fee of \$1,860, payable when invoiced as follows: at October 31 - \$686; at November 30 - \$687; at December 31 - \$487.
3. Payments as provided in paragraph 2. above shall be made from obligated funds remaining available under this Contract as of September 30, 1965.
4. That this modification does not alter and shall not be interpreted to alter, change or modify in any respect the rights, duties and responsibilities of the parties as they existed on September 30, 1965, the date of the expiration of Contract AT(30-1)-1293.

Modification No. 42
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of
the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: /s/ R. C. Blair

TITLE: Manager, SROO

WITNESSES:

/s/ M. Boll

Hicksville, New York
(Address)

/s/ Grace Golden

Hicksville, New York
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.

BY: /s/ W. R. Mandaro

TITLE: Manufacturing Manager
Sylcor Division

I, J. M. Tooher, certify that I am Asst. Secretary
of Sylvania Electric Products Inc., named above; that W. R. Mandaro
who signed this Agreement on behalf of said corporation, was then Mfg. Mgr.
Sylcor Division of said corporation, and that this Agreement was
duly signed for and in behalf of said corporation by authority of its governing
body and within the scope of its corporate powers.

Witness my hand and seal of said corporation this 6th day of December,
1965.

(CORPORATE SEAL)

/s/ J. M. Tooher

A

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 42
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 15th day of December, 1965, effective October 1, 1965, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor at its Hicksville, Long Island, Plant of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time to revise the scope of work and other provisions therein; and

WHEREAS, the Contract, as so amended and revised, now provides in Article VII - GOVERNMENT PROPERTY, that there shall be no charge to the Government for the storage of Government-owned property at the Contractor's Hicksville Plant for a period of 120 days after expiration of said Contract and in Article III - TERM, EXPIRATION AND TERMINATION, that upon expiration, the Contractor shall: (1) discontinue work thereunder, and (2) take such other action as may be required under the provisions of the Contract and subject to the approval of the Commission, such other action as may be appropriate; and

WHEREAS, said Contract expired on September 30, 1965, and the parties thereto now desire to make a written record of the appropriate work which it has been agreed shall be performed by the Contractor within 120 days after such expiration and of the terms and conditions under which such work will be performed; and

WHEREAS, this Modification has been prepared for the purpose of amending the parties' Agreement as aforesaid and for no other purpose.

NOW, THEREFORE, the parties hereto do mutually agree as follows:

1. That within a period of 120 days beginning October 1, 1965, the Contractor shall perform the following work at its Hicksville Plant.
 - (a) Furnish or cause to be furnished all personnel, equipment, tools, and materials necessary to decontaminate the entire AT(30-1)-1293 Contract area at Sylcor's Hicksville, New York, facility including the demolition of Building No. 8. Said buildings and ground areas shall be decontaminated to 2000 dpm/100 sq. cms. (disintegrations per minute per 100 square centimeters) fixed alpha and 100 dpm/100 sq. cms. removable alpha.

A. E. C. FILE COPY

- (b) Prepare, crate, and effect the shipment of Government property as directed by the Commission.
 - (c) Perform such accounting work in connection with the above as may be requested by the Commission.
2. As full and complete compensation for the work performed by the Contractor as provided in 1. above, the Government shall pay the Contractor:
- (a) For repair of damages caused to the Contractor's property by the removal of Government-owned property therefrom, the fixed sum of \$ -0- payable upon final financial settlement of this Contract.
 - (b) For all work except that referred to in (a) hereof performed by the Contractor pursuant to 1. above, the following:
 - (1) Direct labor and salaries at an actual cost basis, based on time records maintained by the Contractor. In addition, a fixed rate of 20% of direct labor and salaries shall be paid for fringe benefits and payroll taxes. These amounts shall be paid monthly as incurred and invoiced.
 - (2) Heat, lights, utility services, and miscellaneous materials used by the Contractor in the performance of work on an actual cost basis, payable monthly as incurred and invoiced.
 - (3) Decontamination of the Plant at a subcontract amount approved by the Contracting Officer, payable monthly as incurred and invoiced.
 - (4) For Hicksville Plant indirect expense (including management, accounting and all other overhead) plus home office general and administrative expense (corporate level), a fixed amount of \$5,030, payable when invoiced as follows: at October 31 - \$3,030; at November 30 - \$1,000; at December 31 - \$1,000.
 - (5) A fixed fee of \$1,860, payable when invoiced as follows: at October 31 - \$686; at November 30 - \$687; at December 31 - \$487.
3. Payments as provided in paragraph 2. above shall be made from obligated funds remaining available under this Contract as of September 30, 1965.
4. That this modification does not alter and shall not be interpreted to alter, change or modify in any respect the rights, duties and responsibilities of the parties as they existed on September 30, 1965, the date of the expiration of Contract AT(30-1)-1293.

Modification No. 42
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION

BY: [Signature]
R. C. Blair, Manager
TITLE: Savannah River Operations Office

WITNESSES:

M. J. Lee
Richville, N.Y.
(Address)
[Signature]
Richville, N.Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
BY: [Signature]
W. R. Mandaro
TITLE: Manufacturing Manager
Sylcor Division

I, J. M. T. COLE, certify that I am ASSISTANT SECRETARY of Sylvania Electric Products Inc., named above; that W. R. Mandaro who signed this Agreement on behalf of said corporation, was then MFG. MGR. Sylcor Div. of said corporation, and that this Agreement was duly signed for and in behalf of said corporation by authority of its governing body and within the scope of its corporate powers.

Witness my hand and seal of said corporation this 6th day of December, 1965.

(CORPORATE SEAL)

[Signature]

Roland A. Anderson, Assistant General
Counsel for Patents, HQ

December 15, 1965

Randall G. Erdley, Chief
Savannah River Patent Group

CONTRACT AT(30-1)-1293 - SYLVANIA ELECTRIC PRODUCTS, INC.

CP:AFW:cm

The subject contract expired September 30, 1965 and no extension is expected. Therefore, it would be appreciated if you would furnish a final patent clearance certificate in this contract.

Interim clearance certificates have been issued periodically. The latest certificate was issued for the period July 1, 1963 through September 30, 1964.

cc: H. S. Potter, NYOO

P. S. to Potter: Please advise if we may be of any assistance in this matter.

OFFICE ▶	Patent Br.					
SURNAME ▶	H. S. Potter					
DATE ▶	12-15-65					

Form AEC-318 (Rev. 9-53)

U. S. GOVERNMENT PRINTING OFFICE 16-62761-3

USDOE 017197



UNITED STATES
ATOMIC ENERGY COMMISSION
SAVANNAH RIVER OPERATIONS OFFICE
P. O. BOX A
AIKEN, SOUTH CAROLINA 29802
(TEL. & TEL. NORTH AUGUSTA, S. C.)

DEC 15 1965

Mr. W. R. Mandaro
Manufacturing Manager
Sylcor Division
Sylvania Electric Products Inc.
Cantiague Road
Hicksville, Long Island, New York

Dear Mr. Mandaro:

Your offer of \$10,000 in full settlement for the AES improvements in the Hicksville Plant Site "A" and waiver of all costs and future obligations associated with repairs, restoration and/or damages to Sylvania Electric Products Inc. property in connection with the closeout of Contract AT(30-1)-1293 as set forth in your letter of December 6, 1965, is accepted.

Appropriate contractual language incorporating into the contract the parties' agreement with respect to the above matter is being prepared and will be forwarded for your review and approval shortly.

Sincerely yours,

R. C. Blair
Manager

December 16, 1965

U. S. Atomic Energy Commission
Savannah River Operations Office
P. O. Box A
Aiken, South Carolina

Attention: Mr. A. I. Morgan, Director
Budget and Finance Division

Dear Sir:

In the interest of an early closeout of the financial affairs of Contract 1293 we submit a proposal for the settlement of the Home Office G & A rates for the year 1964 and the nine (9) month period of 1965 to contract termination.

As you know it usually takes a full year or longer for Sylvania and the Department of Defense to agree on a rate for use on D.O.D. contracts. This means that the 1965 rate will not be established until late in 1966 or early 1967. In discussions with your representatives on this subject it was agreed that it would be to our mutual advantage to negotiate these rates in order to accomplish a fast closeout of contract costs.

We have asked our Contracts Department at Waltham, Mass., to supply the necessary data to substantiate a negotiated rate for this purpose. This department has cognizance of the Sylvania Home Office Audit with the D.O.D. Attached is a copy of the reply from Mr. R. C. Clark indicating that the rate for 1964 which has already been audited by the D.O.D. is expected to be settled at 1.49%. Schedules are supplied to substantiate an estimated rate of 1.47% for the nine month period, January - September 1965.

Based on these proposed rates we have calculated the adjustments required to the contract for these periods. Attached are schedules by month showing the contract 1293 costs upon which the G & A rate is applied and the amount

Continued on Page 2

SYLVANIA ELECTRIC PRODUCTS INC.
SYLCON DIVISION
HICKSVILLE, NEW YORK

Mr. A. Y. Morgan

- 2 -

December 16, 1965

of G & A billed during these periods at an estimated rate of 1.7%. Using the proposed rates of 1.49% and 1.47% for 1964 and 1965 respectively, we arrive at a credit due contract 1293 of \$4,004.61 for 1964 and \$1,729.44 for the nine months of 1965.

We respectfully request your consideration of this proposal to prevent undue delay in close out of contract costs.

Very truly yours,

SYLVANIA ELECTRIC PRODUCTS INC.
SYLCON DIVISION


W. G. Crowley
Supervisor of Accounting

WOC/ead
Enc.

cc: Mr. T. Shields - Wilmington
Mr. R. C. Clark - Waltham

Patent Rev.

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 43
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 14th day of January, 1966, effective December 16, 1965, except as otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor at its Hicksville, Long Island, Plant of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and so amended and revised expired on September 30, 1965; and

WHEREAS, prior to the expiration of said Contract, the parties had informally agreed on an amendment to paragraph 2, Article VIII - SETTLEMENT OF GOVERNMENT INVESTMENT IN IMPROVEMENTS, of said Contract but inadvertently neglected to include such an agreement in a formal amendment to the Contract; and

WHEREAS, during the term of said Contract, certain improvements were made at the expense of the Government to the lands and buildings of the Contractor at its Plant on Cantiague Road, and the parties, following expiration of said Contract and acting pursuant to the provisions of Article VIII of said Contract, have agreed on the "appraised value in place;" the "appraised net salvage value" and the "mutually agreed value" of said improvements; and

WHEREAS, within 120 days following the expiration of said Contract, the Government, pursuant to provisions of Article VII - GOVERNMENT PROPERTY, thereof, removed certain Government-owned equipment and supplies from the Contractor's Plant located on Cantiague Road, Hicksville, Long Island, and in the process of such removal damaged buildings of the Contractor; and

WHEREAS, this Modification has been prepared for the sole purpose of formalizing the parties' agreement with respect to matters referred to in the three preceding clauses.

NOW, THEREFORE, the parties hereto do mutually agree as follows:

CONFORMED COPY

*No patent act in required
wait for patent clearance
from N.Y. P.G.
dckj
1/24/66*

Modification No. 43
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

1. Effective September 22, 1965, paragraph 2, Article VIII - SETTLEMENT OF GOVERNMENT INVESTMENT IN IMPROVEMENTS, is amended to read as follows:

"Upon termination or expiration of this Agreement, the appraised net salvage value of the improvements shall be determined by mutual agreement of the parties following separate appraisals to be made by an appraiser to be selected by the Government and an appraiser to be selected by the Contractor. Promptly following determination of the appraised value in place and the appraised net salvage value, the Contractor shall in good faith further negotiate with and pay to the Government an amount equal to the mutually agreed value of such improvements. The mutually agreed value shall be determined after giving full consideration to the appraised value in place and the current value to the Contractor of such improvements. In no event shall the mutually agreed value be less than the appraised net salvage value of the improvements. Failure to agree upon either the appraised value in place, the appraised net salvage value, or the mutually agreed value to the foregoing provisions of this article shall be considered a dispute to be settled in accordance with the general provisions of this Contract entitled Disputes."

2. In the interest of arriving at a mutual agreement with respect to matters listed in 3, 4, and 5 below, the Contractor does hereby withdraw its claim against the Government for reimbursement for damages occurring to its property by the removal of Government-owned equipment at its Plant on Cantiague Road, Hicksville, Long Island, and does hereby release the Government from any further and all obligations for repairs, restoration and/or damages to such property.
3. The Government-owned improvements described in Exhibit "A," attached hereto and made a part hereof, have an "appraised net salvage value" of \$1,700 and an "appraised value in place" of \$25,000.
4. The Contractor agrees to pay to the Government for the improvements described in Exhibit "A," attached hereto, the sum of \$10,000, which sum is the amount determined by the parties to be the mutually agreed value of said improvements, after giving full consideration to the current value to the Contractor of such improvements and the release by the Contractor of the Government from any further obligations for repairs, restoration and/or damages to the Contractor's property as provided in 2. above.
5. Nothing contained herein shall be deemed to prejudice the other rights and obligations of the parties hereto as they existed as of the effective date of this amendment.

Modification No. 43
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION
BY: /s/ E. L. Kilburn, Deputy Manager
TITLE: Savannah River Operations Office

WITNESSES:

/s/ M. Boll
Hicksville, N. Y.
(Address)

/s/ M. Stiglis
Hicksville, N. Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
BY: /s/ W. R. Mandaro
Manufacturing Manager
TITLE: Sylcor Division

I, J. M. Toohar, certify that I am Asst. Secretary
_____ of Sylvania Electric Products Inc., named above; that
W. R. Mandaro who signed this Agreement on behalf of said
corporation, was then Mfg. Mgr. Sylcor Div. of said corporation,
and that this Agreement was duly signed for and in behalf of said corporation
by authority of its governing body and within the scope of its corporate powers.
Witness my hand and seal of said corporation this 7th day of January,
1966.

(CORPORATE SEAL)

/s/ J. M. Toohar

A

UNITED STATES ATOMIC ENERGY COMMISSION

FINDINGS AND DETERMINATION

The Atomic Energy Act of 1954, as amended

Findings

In accordance with the requirements of the Atomic Energy Act of 1954, as amended, I make the following findings:

1. During the past thirteen years, Sylcor Division has operated its Hicksville plant under a cost-plus-fixed-fee type contract with the Commission for the primary performance of canning uranium slugs for the Savannah River Plant reactor use. The land and buildings at the Hicksville plant are owned by Sylcor; however, the equipment utilized in performing this contract work is owned by the Commission, and is used exclusively on Commission work.
2. The Commission has a continuing need for fuel elements for the SRP reactors.
3. Specifications for the production of the fuel elements are not sufficiently definitive to permit entering into a fixed unit price arrangement.
4. Program requirements are subject to immediate change.

Determination

Based upon the foregoing findings, I hereby determine that it is impracticable to secure services of the kind and quality desired without the use of a cost-plus-fixed-fee supplemental agreement, and I hereby authorize the use of said supplemental agreement.

BY: H. L. Kilburn

TITLE: act'g mgr. SRP

DATE: 10/26/64

U. S. ATOMIC ENERGY COMMISSION
Savannah River Operations Office

Modification No. 43
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

THIS SUPPLEMENTAL AGREEMENT, entered into the 14th day of January, 1966 effective December 16, 1965; except as otherwise hereinafter specifically provided, by and between the UNITED STATES OF AMERICA (hereinafter referred to as the "Government") as represented by the UNITED STATES ATOMIC ENERGY COMMISSION (hereinafter referred to as the "Commission") and SYLVANIA ELECTRIC PRODUCTS INC. (hereinafter referred to as the "Contractor"):

WITNESSETH THAT:

WHEREAS, as of the 10th day of December 1951, the Commission and the Contractor entered into Contract AT(30-1)-1293 for the performance by the Contractor at its Hicksville, Long Island, Plant of certain work for the Commission; and

WHEREAS, said Contract has heretofore been amended from time to time and so amended and revised expired on September 30, 1965; and

WHEREAS, prior to the expiration of said Contract, the parties had informally agreed on an amendment to paragraph 2, Article VIII - SETTLEMENT OF GOVERNMENT INVESTMENT IN IMPROVEMENTS, of said Contract but inadvertently neglected to include such an agreement in a formal amendment to the Contract; and

WHEREAS, during the term of said Contract, certain improvements were made at the expense of the Government to the lands and buildings of the Contractor at its Plant on Cantiague Road, and the parties, following expiration of said Contract and acting pursuant to the provisions of Article VIII of said Contract, have agreed on the "appraised value in place," the "appraised net salvage value" and the "mutually agreed value" of said improvements; and

WHEREAS, within 120 days following the expiration of said Contract, the Government, pursuant to provisions of Article VII - GOVERNMENT PROPERTY, thereof, removed certain Government-owned equipment and supplies from the Contractor's Plant located on Cantiague Road, Hicksville, Long Island, and in the process of such removal damaged buildings of the Contractor; and

WHEREAS, this Modification has been prepared for the sole purpose of formalizing the parties' agreement with respect to matters referred to in the three preceding clauses.

NOW, THEREFORE, the parties hereto do mutually agree as follows:

A. E. C. FILE COPY

1. Effective September 22, 1965, paragraph 2, Article VIII - SETTLEMENT OF GOVERNMENT INVESTMENT IN IMPROVEMENTS, is amended to read as follows:

"Upon termination or expiration of this Agreement, the appraised net salvage value of the improvements shall be determined by mutual agreement of the parties following separate appraisals to be made by an appraiser to be selected by the Government and an appraiser to be selected by the Contractor. Promptly following determination of the appraised value in place and the appraised net salvage value, the Contractor shall in good faith further negotiate with and pay to the Government an amount equal to the mutually agreed value of such improvements. The mutually agreed value shall be determined after giving full consideration to the appraised value in place and the current value to the Contractor of such improvements. In no event shall the mutually agreed value be less than the appraised net salvage value of the improvements. Failure to agree upon either the appraised value in place, the appraised net salvage value, or the mutually agreed value to the foregoing provisions of this article shall be considered a dispute to be settled in accordance with the general provisions of this Contract entitled Disputes."

2. In the interest of arriving at a mutual agreement with respect to matters listed in 3, 4, and 5 below, the Contractor does hereby withdraw its claim against the Government for reimbursement for damages occurring to its property by the removal of Government-owned equipment at its Plant on Cantiague Road, Hicksville, Long Island, and does hereby release the Government from any further and all obligations for repairs, restoration and/or damages to such property.
3. The Government-owned improvements described in Exhibit "A," attached hereto and made a part hereof, have an "appraised net salvage value" of \$1,700 and an "appraised value in place" of \$25,000.
4. The Contractor agrees to pay to the Government for the improvements described in Exhibit "A," attached hereto, the sum of \$10,000, which sum is the amount determined by the parties to be the mutually agreed value of said improvements, after giving full consideration to the current value to the Contractor of such improvements and the release by the Contractor of the Government from any further obligations for repairs, restoration and/or damages to the Contractor's property as provided in 2. above.
5. Nothing contained herein shall be deemed to prejudice the other rights and obligations of the parties hereto as they existed as of the effective date of this amendment.

Modification No. 43
Supplemental Agreement to
Contract No. AT(30-1)-1293
SYLVANIA ELECTRIC PRODUCTS INC.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the day and year first above written.

UNITED STATES OF AMERICA
BY: U. S. ATOMIC ENERGY COMMISSION
BY: H. L. Kilburn
H. L. Kilburn, Deputy Manager
TITLE: Savannah River Operations Office

RAM
10
and
102
7/2

WITNESSES:
M. J. ...
Hicksville, N. Y.
(Address)
M. Stigler
Hicksville, N. Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
BY: W. R. Mandaro
W. R. Mandaro
TITLE: Manufacturing Manager
Sylcor Div.

I, J. D. ..., certify that I am Assistant Secretary
of Sylvania Electric Products Inc., named above; that
W. R. Mandaro who signed this Agreement on behalf of said
corporation, was then Mfg. Mgr. Sylcor Div. of said corporation,
and that this Agreement was duly signed for and in behalf of said corporation
by authority of its governing body and within the scope of its corporate powers.

Witness my hand and seal of said corporation this 7th day of July,
1966.

(CORPORATE SEAL)

J. D. ...

EXHIBIT "A"

IMPROVEMENTS TO PROPERTY CONTRACT AT(30-1)-1293

<u>Asset No.</u>	<u>Description</u>	<u>Location</u>	<u>Date Acquired</u>	<u>First Cost Est.</u>	<u>Net Book Value @ 6/30/65</u>
<u>BUILDINGS, HICKSVILLE REHABILITATION</u>					
3478	Install Glass and Security Windows	Bldgs. 1 & 2		\$ 3,916	
	Construct Gas House	Stockagde Area		1,519	
	Heat and Ventilation	Bldgs. 1 & 2		13,053	
	Electricity Installations	Bldgs. 1 & 2		171,224	
	Undergrd Tele & Elec Duct Lines	Bldgs. 1 & 2		1,089	
	Addi.-Cafeteria	Bldgs. 1 & 2		3,750	
	Trenching & Pits (Inside Lines)	Bldg. 1		9,209	
	Quality Control Room	Bldg. 1		1,236	
	Fire Protection System	Bldgs. 1 & 2		22,050	
	Roofing & Roof Monitor	Bldgs. 1 & 2		21,525	
	Fence	Bldg. 1 (Adjacent)		5,276	
			TOTAL	\$253,847	
<u>FENCES</u>					
2002	Chain Link w/16" Gate	Rear Bldg. 1 (Sump)	7/56	\$ 554	\$ 54
3287	400' of 7' Fence w/Gates	Front - Guardhouse	12/53	1,215	652
3289	Security Fence w/Gate	Bldg. 2 Mach. Weld Shop	6/60	557	447
3416	Security Folding Gate	Front - Guardhouse	8/54	165	94
3482	Chain Link Fence	Bldg. 1 Stockade Area	8/59	2,022	825
			TOTAL	\$ 4,513	\$2,072

IMPROVEMENTS TO PROPERTY CONTRACT AT(30-1)-1293

<u>Asset No.</u>	<u>Description</u>	<u>Location</u>	<u>Date Acquired</u>	<u>First Cost</u>	<u>Net Book Value @ 6/30/65</u>
<u>BUILDING EQUIPMENT</u>					
1924	Fan, Ceiling Exhaust	Bldg. 2 Mach. Shop	9/56	\$ 191	\$ 32
1925	Fan, Ceiling Exhaust	Bldg. 2 Mach. Shop	9/56	191	32
1926	Fan, Ceiling Exhaust	Bldg. 2 Mach. Shop	9/56	191	32
1927	Fan, Ceiling Exhaust	Bldg. 2 AEC Metal Rm.	9/56	191	32
2035	Fan, Ceiling Exhaust	Bldg. 2 Cafeteria	6/56	319	-0-
2036	Fan, Ceiling Exhaust	Bldg. 2 Cafeteria	6/56	319	-0-
2556	Roof Ventilator	Bldg. 2 AEC Stockrm	12/56	99	-0-
3676	Roof Ventilator	Bldg. 2 Cafeteria	8/61	284	166
3677	Roof Ventilator	Bldg. 2 Cafeteria	8/61	285	168
2092	Fountain, Wash, Circular	Bldg. 1 Prod. Washrm	10/56	240	32
3277	Fountain, Wash, Circular	Bldg. 1 Prod. Washrm	7/60	253	131
3278	Fountain, Wash, Circular	Bldg. 2 Prod. Mch. Washrm	7/60	179	85
3279	Fountain, Wash, Circular	Bldg. 2 Prod. Mch. Washrm	7/60	178	84
2180	Fountain, Wash, Circular	Bldg. 2 Mach. Shop Washrm	11/56	240	32
			TOTAL	\$3,160	\$ 826
<u>WALKS, PADS, PARKING FIELD</u>					
3492	Parking Field #2	Park. Area Bldg. 3	12/56	\$8,070	\$1,169
3493	Poles, Tele. Bumper Guards	Parking Fields	2/57	185	34
			TOTAL	\$8,255	\$1,203

IMPROVEMENTS TO PROPERTY CONTRACT AT(30-1)-1293

<u>Asset No.</u>	<u>Description</u>	<u>Location</u>	<u>Date Acquired</u>	<u>First Cost</u>	<u>Net Book Value @ 6/30/65</u>
<u>CHANGES TO BUILDING INTERIOR</u>					
3483	Dustproof Room	Assbly Room Bldg. 1	3/57	\$ 7,473	\$ 3,005
3487	Expand Men's Room	Building 2	8/56	850	101
3488	Expand Accountability Area	Building 1	7/56	5,000	464
3480	Alterations to Cafeteria	Building 2	8/56	2,561	314
3491	Alterations to Chem. Lab.	Building 1	3/53	1,300	-0-
3511	Vent System - Dust Room	Building 1	5/57	714	126
3888	Production Office	Building 1	5/64	<u>1,419</u>	<u>1,251</u>
			TOTAL	\$19,317	\$ 5,261
<u>SUMPS, WELLS AND DRAINS</u>					
3481	Cesspool	Behind Bldg. 1 for Process Water	9/56	400	82
3484	Clay Pipe Drain	Connecting Sumps for Process Water	7/56	250	34
3485	Drain System & Tanks	Bldg. 1 - For Process Water	1/58	12,487	2,711
3489	Stone Area	Grade Area North of Sumps	11/57	2,530	1,242
3490	Dry Well & Catch Basin	Drain Water - Storage Area	11/57	600	140
3494	2 Dry Wells & Catch Basin	Between Bldgs. 1 & 3 Parking Lot 2	5/57	1,060	178
3507	Sump	Behind Bldg. 1	10/56	3,250	415
3508	Sump Incl. Test Bore #3495	Behind Bldg. 1	6/56	2,948	328
3733	Filter Basin	Used w/Plating Machine	1/62	840	546
3757	Dry Well	Rear Bldg. 2	12/61	475	303
3883	Dry Well	Stockade	2/64	420	352
3458	Sump w/Fence	Rear Bldg. 2 - Mach. Shop	1/60	<u>1,740</u>	<u>1,425</u>
			TOTAL	\$27,000	\$ 7,756

IMPROVEMENTS TO PROPERTY CONTRACT AT(30-1)-1293

<u>Asset No.</u>	<u>Description</u>	<u>Location</u>	<u>Date Acquired</u>	<u>First Cost</u>	<u>Net Book Value @ 6/30/65</u>
3515	<u>AUTOMATIC SPRINKLER SYSTEM</u>				
	1. Pump House	AEC Site	7/60	\$ 5,600	
	2. 150,000 Gallon Storage Tank	AEC Site		12,000	
	3. Hot Water System (Temp. Control)	AEC Site		2,500	
	4. Underground installation 6" & 8" lines, check valves, underground piping, excavating, repaving, etc.			26,350	
	5. Sprinkler overhead pipe system incl. sprinkler heads			<u>32,312</u>	
		TOTAL COST	7/60	\$78,762	\$39,402

IMPROVEMENTS TO PROPERTY CONTRACT AT(30-1)-1293

<u>Asset No.</u>	<u>Description</u>	<u>Location</u>	<u>Date Acquired</u>	<u>First Cost</u>	<u>Net Book Value @ 6/30/65</u>
3053	Air Conditioner)	Bldg. 1 Admin. office	8/57	\$ 795	\$ 376
3683	Cooling Tower)	Bldg. 1 used w/above condi.	9/61	1,867	596
3054	Air Conditioner	Bldg. 2 Acctg. Dept.	8/57	200	94
3250-51	Blower w/Motor	Bldg. 1 - on roof	4/60	846	625
3360	Fan, Ventilating	Bldg. 2 - Roof Maint. Shop	6/57	640	382
3093	Exhaust Fan	Bldg. 1 On roof Chem. Lab.	11/57	1,045	244
3275	Air Conditioner	Bldg. 4 Former Purch. area	7/60	967	644
3459	Air System	Bldg. 1 Exhaust-Plating &	12/59	10,975	8,523
3470	Blowers	Chem. Lines	7/60	414	207
3477	Fan	Bldg. 1 Roof	10/60	873	458
TOTAL				\$18,622	\$12,149

JUN 8 1966

SYLCOR HICVL

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T 516-433-9526
R 282024Z
FM N STETSON USAEC N AUGUSTA SC
TO W R MANDARO SYLCOR DIV SYLVANIA ELECTRIC PRODUCTS INC HICKSVILLE
NY
AEC
BT

UNCLAS BUILDINGS 1 AND 2 AND SURROUNDING GROUNDS USED IN CONNECTION WITH THE PERFORMANCE OF CONTRACT AT/30-1/-1293 HAVE BEEN INSPECTED AND FOUND TO BE WITHIN THE ACCEPTABLE RADIOACTIVITY LIMITS SPECIFIED IN MR BLAIRS TWX DATED AUGUST 31 1965. THE BUILDINGS ARE ACCORDINGLY RELEASED TO YOUR NORMAL USE. PLEASE EXECUTE AND RETURN FINAL RELEASE AND GENERAL ASSIGNMENT EARLIEST POSSIBLE DATE REF AC-RAF

BT
Copies to: ... Conway, Mandaro, H. Suit 6/9/66

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FINAL RELEASE

Contract No. AT(30-1)-1293

Contractor SYLVANIA ELECTRIC PRODUCTS INC.

The work under Contract No. _____ between the UNITED STATES OF AMERICA (represented by the ATOMIC ENERGY COMMISSION) and the Contractor, having been completed and finally accepted, and in consideration of final payment thereunder, the United States of America, its officers and agents, are hereby released from all claims and demands whatsoever arising under or by virtue of said Contract except as follows:

- (1) specified claims in stated amounts or in estimated amounts where the amounts are not susceptible of exact statement by the Contractor as follows:
- (2) claims, together with reasonable expenses incidental thereto, based upon liabilities of the Contractor to third parties arising out of performance of this Contract; provided that such claims are not known to the Contractor on the date of the execution of the release; and provided further that the Contractor gives notice of such claims in writing to the Contracting Officer not more than six (6) years after the date of the release or the date of any notice to the Contractor that the Government is prepared to make final payment, whichever is earlier; and
- (3) claims for reimbursement of costs (other than expenses of the Contractor by reason of any indemnification of the Government against patent liability), including reasonable expenses incidental thereto; incurred by the Contractor under the provisions of this Contract relating to patents.

The Contractor agrees, in connection with patent matters and with claims which are not released as set forth above, that it will comply with all of the provisions of said Contract, including without limitation those provisions relating to notification of the Contracting Officer and relating to the defense or prosecuting of litigation.

Executed this 29th day of June 1966.

Witnesses:

M. Lee

Hicksville, N.Y.
(Address)
Grace S. Green

Hicksville, N.Y.
(Address)

SYLVANIA ELECTRIC PRODUCTS INC.
(Contractor)
By: W. R. Mandaro

W. R. Mandaro
Manufacturing Manager, Sylcor Div.
(Official Title)

GENERAL ASSIGNMENT

KNOW ALL MEN BY THESE PRESENTS, that SYLVANIA ELECTRIC PRODUCTS INC.
(Contractor) (a corporation organized and existing under the laws of the State of
Delaware, with its principal place of business at
Catskill, N.Y.) has been engaged in performing work under
Contract No. AT(30-1)-1293 with the UNITED STATES OF AMERICA (herein-
after called the "Government"), represented by the UNITED STATES ATOMIC ENERGY
COMMISSION (hereinafter called the "Commission"), work under said Contract
having been (completed and finally accepted) (terminated), and in consideration
of the terms of said Contract and final payment thereunder, the Contractor does
hereby presently assign and transfer to the Government, to the extent not hereto-
fore assigned or transferred to the Government, (a) any and all subcontracts,
purchase orders, and other agreements entered into in the performance of the
Contract and all of the rights and interests it may have thereunder, except those
listed in Schedule "A" attached hereto, including without limitation transfer of
the administration of such subcontracts, purchase orders, and other agreements;
and (b) all of its rights to and interests in any refunds, rebates, allowances,
accounts receivable, or other credits applicable to or in connection with any
expenditures which were allowable costs under the said Contract, except as
specifically set forth in Schedule "B," attached hereto and hereby expressly
made a part hereof.

In addition, the Contractor does hereby presently assign and transfer to the
Government all rights and interests of the Contractor in any refunds, rebates
or other credits, applicable to or against any expenditures which were allowable
costs under the above-numbered Contract which are not presently known but which
may materialize at a later date.

The Contractor agrees to furnish, at the expense of the Government, any and all assistance which may be required of it in connection with the enforcement of the rights or interests herein assigned or the settlement or defense of claims or litigation arising out of the subcontracts, purchase orders, or other agreements herein or heretofore assigned or transferred, such assistance to include furnishing any and all pertinent records, correspondence, documents, and other papers in its possession, and the assistance of employees possessing knowledge of the facts for conference and for attendance in court as witnesses in connection with the enforcement of said rights or the settlement or defense of said claims or litigation.

The Government, for its part, does hereby assume all obligations which the Contractor may have under the subcontracts, purchase orders, and other agreements herein or heretofore assigned or transferred, to the extent that such obligations are allowable costs under the Contract and does hereby release the Contractor from all liability and responsibility for the collection of any of said refunds, rebates, allowances, accounts receivable, or other credits herein assigned, and for the enforcement of any rights, or the defense of any claims or litigation with respect thereto, except as herein provided.

Executed this 29th day of June, 1962.

WITNESSES:

M. Lee

 Hicksville, N.Y.
 (Address)
Grace Lee

 Hicksville, N.Y.
 (Address)

PENNSYLVANIA ELECTRIC PRODUCTS INC.

Contractor

By:

W. H. Mandaro

 W. H. Mandaro
 Manufacturing Manager, Sylecor Div.
 Official Title

ACCEPTANCE BY UNITED STATES OF AMERICA
 BY: U. S. ATOMIC ENERGY COMMISSION

BY:

M. Stetson

 M. Stetson, Manager

TITLE: Savannah River Operations Office

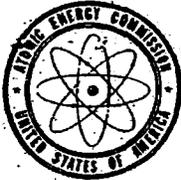
If the Contractor is a corporation, the following certificate will be executed:

CORPORATE CERTIFICATE

I, J. D. TRENKLE certify that I am the PRESIDENT of the Corporation executing the foregoing assignment; that W. J. MASON who signed the said document on behalf of the assignor, was then VICE PRES SENIOR (officer) of said Corporation; that I know his signature, and his signature thereto is genuine; and that said assignment was duly signed, sealed, and attested for and in behalf of said corporation by authority of its governing body.

(CORPORATE SEAL)

J. D. TRENKLE



UNITED STATES
ATOMIC ENERGY COMMISSION
SAVANNAH RIVER OPERATIONS OFFICE
P. O. BOX A
AIKEN, SOUTH CAROLINA 29801
(TEL. & TEL. NORTH AUGUSTA, S. C.)

May 2, 1973

L. Joe Deal, Asst. Director for
Health Protection
Division of Operational Safety, HQ

RADIOLOGICAL CLEANUP AND SITE DISPOSAL ACTIONS

Recent conversation between K. E. Herde of this office and R. E. Allen of your staff revealed a change in plans since your February 9, 1973, memo on this subject. Mr. Allen requested that pertinent correspondence and reports on the final cleanup of the Sylcor Plant at Hicksville, New York, be transmitted since he does not now plan to visit this site.

In addition to specific response to the four items included in your memorandum, we are sending fourteen enclosures that describe the radiological aspects of the Sylcor operations. Response to the four items follows:

1. The criteria applied were at that time being developed cooperatively by your Division and the Regulatory group for subsequent inclusion in AEC Manual Chapters 5170 and 5182. (See enclosures numbered 1 and 2.)
2. The final radiological situation of the site and buildings is described in an enclosed copy of "Decontamination of Sylcor 1293 Area" by F. J. Bradley, Health Physicist of Isotopes, Inc. (Encl. 3) who was retained by Sylcor to decontaminate the facility. Correspondence confirming the transfer of uranium scrap to the Fernald, Ohio, plant for recovery, and wastes, sludges and contaminated equipment to the Savannah River Plant site is also enclosed.
3. Correspondence and records not previously mentioned are included in part in other enclosures.
4. The history of operational activity and Atomic Energy Commission involvement at the Hicksville site predated SROO participation which began by an agreement of July 30, 1954. Previous to that date the contract AT(30-1)-1293 was a research and development

May 2, 1973

contract between the New York Operations Office and Sylvania Electric Products, Inc. The original proposal of the SROO contract involved a fixed fee agreement for the production of 25,000 enriched uranium slugs to be canned by a pressure bonding technique developed by Sylvania at the Hicksville plant. The necessary aluminum cans, caps and alloy slugs were furnished to Sylvania by the Commission. This original agreement was to be completed by December 31, 1954. That agreement was followed by a cost-plus-fixed-fee contract agreement that continued under the number designation AT(30-1)-1293 for eleven additional years at an average annual cost of nearly three million dollars. The machining and cladding of fuel elements for SRP reactors continued to be the entire service rendered by Sylcor under this contract. The seven principal buildings (see sketch in Encl. 3) had a total square footage of about 50,000. After January 1965 a part of the facility was used for non-AEC commercial interest contracts.

Since New York Operations Office was conveniently nearby and had previously been obliged to make radiological surveys at that site, their health physics services were used to supplement frequent visits by this office. The staff of the Hicksville operation of Sylcor usually varied from 70 to 130 persons. Final cleanup under the direction of Isotopes, Inc. involved the drumming of sump sludges for shipment by this office to the SRP contaminated waste burial grounds.

If additional details are required, we would be pleased to have one of your staff assist in the search through a rather voluminous general correspondence file on the Sylcor contract negotiations.

MEA:KEH:dln



G. H. Giboney, Director
Office of Environmental Affairs

Enclosures:
See Attached List

*Copy from
5/2/73 Giboney to
Deal letter*

Enclosures:

1. Memo August 2, 1965, "Surface Contamination Control Criteria for Unconditional Release of Contaminated Property," from A. F. Perge, DOS, to P. J. Hagelston, SRO.
2. Memo May 5, 1966, "Approval of Release of Sylcor Buildings for Unlimited Uses or Sale," from P. J. Hagelston, S&TS, SRO, to J. S. Hopkins, Admin. Div., SRO.
3. Report, January 31, 1966, "Decontamination of Sylcor 1293 Area Hicksville," by Dr. F. J. Bradley, Health Physicist, Isotopes, Inc.
4. Letter May 26, 1965, "Scrap to Fernald for Recovery," from Edward Meyer, Sylcor, to R. C. Blair, SRO Manager.
5. Memo July 30, 1965, "Disposal of Contaminated Waste from Sylcor," from I. A. Hobbs, T&P, SRO, to R. C. Blair, SRO Manager.
6. Letter August 4, 1965, "Transfer of Equipment from Sylcor to Savannah River Plant," from J. A. Monier, Du Pont, to R. C. Blair, SRO Manager.
7. Memo November 4, 1965, "Survey and Disposal of Equipment at Sylcor," from G. H. Giboney, S&TS, to J. S. Hopkins, Admin. Div., SRO.
8. Agreement January 1, 1965, "Use of Government Owned Facilities in Performance of Private Commercial Work," between AEC and Sylcor.
9. TWX May 18, 1965, "Notice, Termination of Contract," from F. P. Baranowski, HQ, to R. C. Blair, SRO Manager.
10. Letter December 6, 1965, "Contract Termination," from W. R. Mandaro, Sylcor, to R. C. Blair, SRO Manager.
11. Memo April 1, 1966, "Inspection of Sylcor's Hicksville Plant," from N. Stetson, SRO Manager, to W. M. Johnson, NYOO Manager.
12. Memo April 4, 1966, "Arrangements for Radiological Monitoring and Consultation at Sylcor," from K. E. Herde, S&TS, to P. J. Hagelston, S&TS Div., SROO.
13. Memo April 12, 1966, "Levels of Contamination Observed at Sylcor," from K. E. Herde, S&TS, to P. J. Hagelston, S&TS Div., SROO.
14. Letter February 1, 1966, "Compliance with N. Y. State Industrial Code," from Dr. Morris Kleinfeld, Consulting Medical Director, to Henry Grieb, Sylcor.

GENERAL SERVICES ADMINISTRATION		5099-101	NSN 7540-01-317-7368
Fax #		301-279-9221	
Phone #		202-626-1057	
Dept./Agency		HAI (B. MARSH)	
From		C. Young	
# of pages		3	
FAX TRANSMITTAL			
OPTIONAL FORM 99 (7-90)			

DOE Office of Site Closure
FUSRAP Room



UNITED STATES GOVERNMENT

Memorandum

TO : P. J. Hagelston, Director
Safety & Technical Services Division, SR

FROM : Alex F. Perge, Chief, Materials Processing
Safety Br., Div. of Operational Safety, HQ

SUBJECT: SURFACE CONTAMINATION CONTROL CRITERIA FOR UNCONDITIONAL RELEASE OF
CONTAMINATED PROPERTY

DATE: August 2, 1965

OS:MPS:AAS

Messrs. Herde and Collins, SR, have recently contacted A. Schoen of this office regarding acceptable radioactive surface contamination levels for the unconditional release of uranium contaminated facilities and equipment at the Sylcor plant in Hicksville. This office and the regulatory staff have been cooperating in the development of criteria governing the unconditional release of surface contaminated equipment, scrap, and facilities for inclusion in the federal regulations and revisions to AEC Manual Chapters 5170 and 5182. The appropriate changes in the regulations and the manual chapters are not final yet. However, the technical criteria have been agreed to and have been used for some time in the regulatory program and also certain AEC operations.

The table below lists the values that are presently considered acceptable for unconditional release and unrestricted use of facilities, equipment and scrap contaminated with normal, enriched or depleted uranium, natural thorium, and Th 232.

PERMISSIBLE SURFACE CONTAMINATION LEVELS

	<u>Fixed</u>		<u>Transferable*</u>
	<u>Average</u> (d/m/100 cm ²)	<u>Maximum</u> (mrad/hr)	<u>Maximum**</u> (d/m/100 cm ²)
<u>Alpha</u>	5000	25000	1000
<u>Beta - gamma</u>	0.2	1.0	

* Radioactivity which is detected by commonly used smear survey techniques.

** Average contamination levels are not specified. Items which are generally contaminated with transferable activity warrant further decontamination.



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

DOE Office of Site Closure
FUSRAP Room



UNITED STATES GOVERNMENT

Memorandum

(4)

TO : J. S. Hopkins, Director
Administrative Division

DATE: May 3, 1965

FROM : P. J. Bagelston, Director
Safety and Technical Services Division

SUBJECT: APPROVAL OF RELEASE OF SYLOR BUILDINGS FOR UNLIMITED USES OR SALE.

STR:KEH:th

This Division now has on file letters and/or survey reports of the several groups that have been involved in cleaning and monitoring buildings 1 and 2 and surrounding grounds that have been used under Contract AT(30-1)-1293. All reports agree with the findings of this Division that the buildings are now clean and within acceptable radioactivity limits as defined in a TWX from R. C. Blair on August 3, 1965, (uranium contamination to a level of 2000 alpha disintegrations per minute maximum of fixed contamination when averaged over a one hundred cm² area). Essentially all unfixed or smearable contamination has been removed by the cleaning operations of Isotopes Incorporated, arranged by purchase orders.

With this cleanup completed you are hereby authorized to release the facilities at your discretion.



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